ANNUAL REPORT
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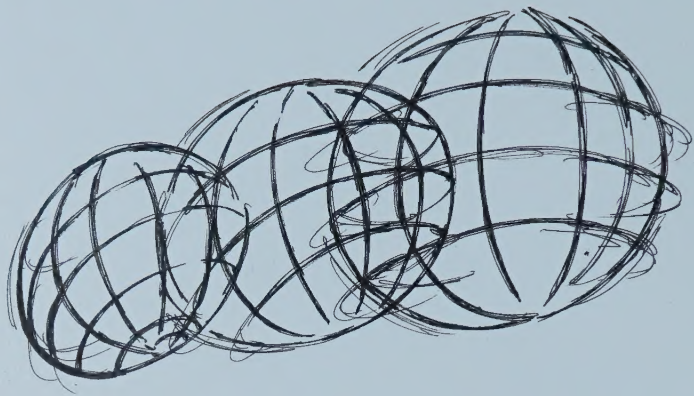
Precision Drilling

DEDICATED DECISIVE DISCIPLINED
IN OUR CHANGING WORLD

Precision Drilling



Dedicated to providing Solutions

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For a more detailed description of our businesses please refer to our Annual Information Form which can be accessed through the internet at: www.precisiondrilling.com
For a hard copy, contact Precision's Investor Relations department.

Precision Drilling Corporation (Precision or the Corporation) is a rapidly-growing international oil and gas service company focused on providing a comprehensive range of services, new and innovative technology, and superior customer service to the energy industry around the world.

Headquartered in Calgary, Alberta, Canada, we have built on our success as a leader in the Canadian drilling service industry to include operations on six continents. We have established international regional centers serving the United States (US), Latin America, Europe/Africa, Middle East, and Asia/Pacific.

Through our Contract Drilling Group, Technology Services Group and Rental and Production Group, we provide customers access to a growing fleet of drilling and service rigs; drilling and completion services; controlled pressure drilling; sophisticated downhole completion tools; logging-while-drilling systems; directional drilling services; drill bit and tool manufacturing; gas compression packaging; drilling, completion and production rental equipment; and industrial maintenance services.

We have been successful because we consistently perform for our customers. In a world that is constantly changing, we are committed to meeting their needs with a unique product mix, exceptional people, responsive and flexible service, and the dedication, decisiveness and discipline they expect from working partners.

Worldwide
TO THE ENERGY INDUSTRY

FINANCIAL PERFORMANCE SUMMARY

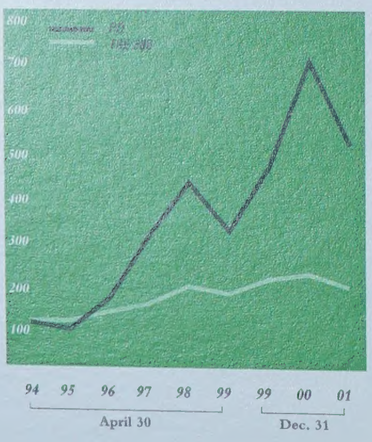
(Stated in thousands of dollars, except per share amounts which are presented on a diluted basis)

Years ended December 31,	2001	2000	01/00 % Change	1999	00/99 % Change
Revenue	$ 1,953,563	$ 1,355,453	44	$ 734,740	84
Operating earnings (1)	384,377	260,845	47	117,494	122
Cash flow (2)	465,673	297,873	56	101,479	194
Per share	8.59	5.91	45	2.24	164
Earnings before goodwill amortization	219,829	154,321	42	50,081	208
Per share	4.06	3.06	33	1.11	176
Net earnings	188,044	131,560	43	34,250	284
Per share	3.47	2.61	33	0.76	243
Shareholders' equity	1,417,604	1,206,895	17	908,795	33
Per share	26.16	23.93	9	20.07	19
Net capital expenditures (3)	340,691	180,484	89	41,148	339
Long-term debt (4)	496,200	548,096	(9)	226,815	142
Number of shares outstanding, end of year (000's)	53,176	52,283	2	47,163	11

(1) Refer to explanation on page 39 of this annual report
(2) Funds provided by operations
(3) Excludes business acquisitions
(4) Excludes current portion of long-term debt

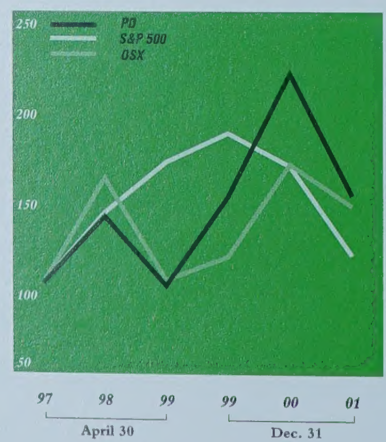
Share Performance TSE

Down 27% over 2000



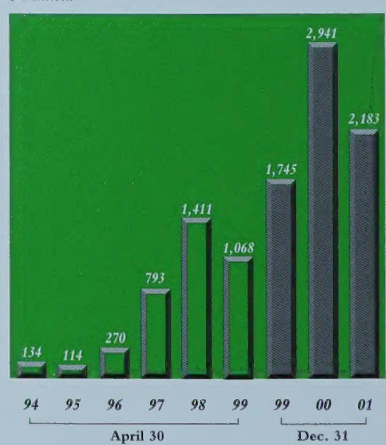
Share Performance NYSE

Down 31% over 2000



Value of Shares Outstanding

Down 26% over 2000
$ Millions



QUARTERLY RESULTS SUMMARY

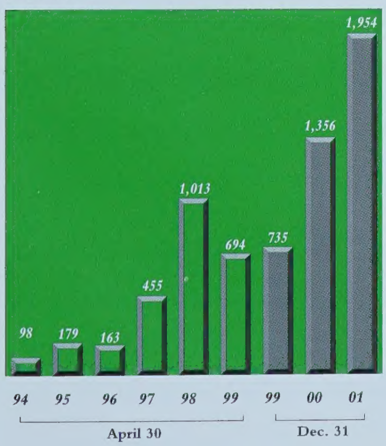
(Stated in thousands of dollars, except per share amounts which are presented on a diluted basis)

Year ended December 31, 2001	Q1	Q2	Q3	Q4	Year
Revenue	$ 613,655	$ 409,917	$ 474,016	$ 455,975	$ 1,953,563
Operating earnings (1)	163,238	54,835	92,680	73,624	384,377
Cash flow (2)	170,345	92,066	109,978	93,284	465,673
Per share	3.12	1.68	2.05	1.74	8.59
Earnings before goodwill amortization	90,040	37,302	50,902	41,585	219,829
Per share	1.65	0.68	0.95	0.77	4.06
Net earnings	82,090	29,372	42,962	33,620	188,044
Per share	1.50	0.54	0.80	0.63	3.47

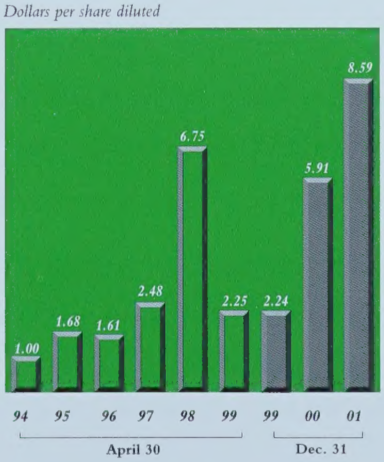
Year ended December 31, 2000	Q1	Q2	Q3	Q4	Year
Revenue	$ 384,400	$ 223,812	$ 303,354	$ 443,887	$ 1,355,453
Operating earnings (1)	93,847	24,131	48,141	94,726	260,845
Cash flow (2)	107,148	35,096	56,092	99,537	297,873
Per share	2.20	0.68	1.12	1.87	5.91
Earnings before goodwill amortization	49,573	11,136	23,453	70,159	154,321
Per share	1.02	0.21	0.47	1.32	3.06
Net earnings	45,291	6,835	16,903	62,531	131,560
Per share	0.93	0.13	0.34	1.18	2.61

(1) Refer to explanation on page 39 of this annual report
(2) Funds provided by operations

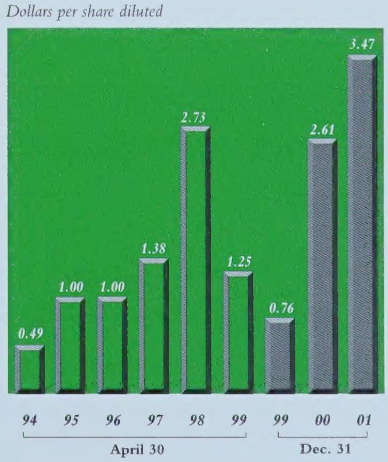
Revenue
Up 44% over 2000
$ Millions



Cash Flow per Share
Up 45% over 2000
Dollars per share diluted



Net Earnings per Share
Up 33% over 2000
Dollars per share diluted



TO OUR SHAREHOLDERS,
EMPLOYEES,
CUSTOMERS, ASSOCIATES
AND FRIENDS

Disciplined in planning Steady

Our world is changing, and 2001 will no doubt go down in history as a benchmark year for testing the ability of companies throughout North America and around the world to adapt to the challenges of a new political and economic climate.

The aftermath of the terrorist attacks in the United States on September 11 continues to be felt as both businesses and individuals adjust their priorities. We have already seen the devastating immediate effects of this tragedy on the airline, hospitality and tourism industries, and the long-term effects are still unfolding throughout all other commercial sectors, including the energy industry.

Whether or not North America was in a recession before this event, it is clear that an economic downturn was well underway by the end of the year. The oilfield service sector was not immune to this reality.

Despite a difficult end to the year, at Precision we are proud to report record results, and to be facing a future bright with opportunities. We believe our steady growth is a direct result of our ability to do what we say we will do and to act in a way that is dedicated, decisive and disciplined – in our changing world.

A RECORD YEAR

Our Corporation again achieved record revenue in 2001, which rose to almost $2 billion compared to $1.4 billion in 2000. Net earnings in 2001 were also at record levels, increasing to $3.47 per share, compared to $2.61 in 2000. However, we were not unaffected by the general economic roller-coaster ride of the third and fourth quarters.

During our first and second quarters, record drilling activity and geographic diversification helped us realize revenue increases of 60% and 83%, respectively, over the previous year. Third quarter revenues continued to be strong, increasing 56% over the third quarter of 2000, with a significant portion of that growth stemming from the success of our integrated services project in the Burgos Basin of northern Mexico. At that time, we were already predicting a slowdown in the fourth quarter due to the decline in commodity prices and a slowing world economy.

In the fourth quarter, revenue increased a marginal 3% over the final quarter of 2000, while net earnings declined to $34 million from $63 million in the previous year. It should be noted that the fourth quarter of 2000 included a one-time tax reduction resulting from Canadian federal tax changes. On a normalized basis, the decrease over fourth quarter 2000 earnings would only have been $9 million, or 21%. Operating earnings dropped to $74 million, 22% below the same period in 2000.

Growth TO ACHIEVE OUR FINANCIAL GOALS

Overall, cash flow and net earnings for the fiscal year 2001 were $466 million and $188 million, respectively, up from $298 million and $132 million in 2000. Our domestic revenue grew by 28% to $1.4 billion, while international revenue grew by 116%, to $541 million compared to $250 million in 2000.

We continued to invest in the future and in the enormous potential of the global marketplace by expanding our geographic footprint and our technology offerings. The opening of five regional centers reflects our commitment to global expansion and forms the foundation of Precision's delivery systems for the new technologies now under development. Our commitment to technology is reflected in our investment of $32 million as we intensified our research and engineering efforts. Another $407 million was spent on capital expenditures and business acquisitions.

DISCIPLINED GROWTH

In 2001, as part of our planned long-term growth strategy, we focused on consolidation of previous acquisitions and development of initiatives launched in 2000. In particular, we took steps to translate the skills and services we have acquired as Canada's premier drilling contractor into increasing our role as a global supplier of energy-related products and services.

As announced at the end of 2000, we opened regional centers in five strategic geographic areas around the world. Initial costs for establishing these centers had a negative impact on our bottom line. However, by broadening our global footprint and incorporating local infrastructure to support Precision's numerous product lines, we are now well positioned to better serve our existing customers as well as develop new business and customer relationships within the global marketplace, while facilitating the rollout of our new technologies.

Part of this strategy involved bringing a number of Precision's services under one global umbrella. Internationally, the new Technology Services Group (TSG) includes the following business units: Computalog, Northland Energy Corporation, Polar Completions Engineering Inc., United Diamond Ltd., and Fleet Cementers, Inc. Through TSG, customers now have a single point of access to a wide range of products, technology and services, including polycrystalline diamond compact drill bits, wireline services, directional drilling services, sophisticated downhole tools, measurement-while-drilling (MWD) tools, well cementing and stimulation services, and controlled pressure drilling systems.

We also fine-tuned the aggressive research and engineering program begun in 2000 to support both our domestic and international markets by enhancing current product offerings and bringing new technology to market, such as our pioneering logging-while-drilling (LWD) and rotary steerable tools.

The year 2001 had its share of challenges. The rollout of new technology from our research and development facility in Houston was delayed due to a flood in the building during a tropical storm in the summer of 2001, and to a longer-than-expected testing process for proving the new tools. Despite these setbacks, we still expect to halve the traditional development time for a similar new tool rollout and testing process. We anticipate a 2002 release of a revolutionary new generation of LWD tools designed and expected to exceed all industry standards for temperature, pressure and flow rate performance, as well as system reliability. Dependable LWD measurements are critical in hostile, high-cost drilling environments, such as those encountered in deepwater exploration.

DECISIVE RESULTS

Once again, the Contract Drilling Group (CDG) posted a record year by drilling the most wells in Canada in 2001. The first quarter was our busiest ever across all product lines, particularly in North America. The record high continued into the traditionally-slow second quarter. As the second quarter drew to a close, however, there were already signs of the softening North American markets.

Internationally, activity remained strong in both TSG and in CDG with the latter active in Venezuela, Oman, Brazil, Argentina and Mexico.

As the year progressed, we realized significant returns in new and developing areas of our business. Our joint venture project in the Burgos Basin in northern Mexico is an outstanding example of how our wide range of vertically-integrated services and technological know-how can be successfully applied in a new geographic region.


COMPUTALOG
Wireline Services

The Burgos project – a 240 gas well project valued at US $270 million – showcases Precision's ability to handle a large-scale project, from establishing the complex local infrastructure to supplying the rigs and a complete range of associated services and products. As project manager and lead contractor, we kept this high-profile project ahead of schedule through all the key milestones in 2001.

Overall, Precision's advanced drilling technology continues to play a significant role in our success. For example, our Canadian-designed and built Super Single™ rig, which enhances drilling efficiency and mobilization, was key in securing the Burgos project. As well, some of the biggest energy companies in Canada have made us their partners of choice for developing and constructing new drilling technologies – such as our work with Petro-Canada on a new generation of slant drilling rig for ongoing use in the development of Canada's oil sands.

In the United States, we demonstrated our expertise in open hole and cased hole services as demand for those services continued to rise. A recovering market for controlled pressure drilling and well testing allowed Northland Energy to substantially increase its activities in the United States. Northland's performance was also enhanced by stronger internal processes and synergies resulting from its consolidation with Norward Energy and Entest.

The continued consolidation of Challenger/Silverline allowed us to provide the kind of effective, affordable services that has led to our domination of the slickline market in Canada.

Within the Rental and Production Group, CEDA International Corporation experienced phenomenal success. CEDA continued to expand its turnkey maintenance and turnaround services, and is poised to take advantage of the billion-dollar-market for those services in the United States. CEDA's international role has also grown, with work performed in Norway, Germany, France and Trinidad.

DEDICATED TO RESPONSIBLE PERFORMANCE

A strong balance sheet, a proven track record, and a focused, consistent strategy of growth are all vital components of success in these changing times. But an organization's true worth is reflected in its people, in the care it takes to provide a safe and healthy work environment, and in the way it supports the communities it serves.

At Precision, we are committed to our people – not only ensuring they receive the practical hands-on training required for a career in the oil and gas industry, but by educating them in one of our top priorities: safety.

We continually invest more in our safety staff, employee programs and safety equipment. Safety is not about cost reduction. It is about making sure that our workers have the necessary knowledge, skills and equipment to perform their jobs safely under any conditions – anywhere in the world.

In 2001, we launched a corporate-wide initiative to standardize the compilation and reporting of safety statistics across our business units. This gives management improved insight into our overall corporate performance, as well as a better tool to measure our success against meaningful goals and objectives. We were able to report our first-ever corporate-wide statistical safety performance, which analyzed over 24 million hours of work. A lost time performance of 1.35 accidents per 200,000 man hours serves as our measurement bar for future improvements – another step in consolidating the management of a diverse group of companies.

We are proud of having safety practices that often exceed government requirements and standards. We take our commitment seriously, and we work closely with our customers, vendors and trade associations to enhance safety throughout our industry.

We also work closely with our customers to make sure our equipment and our working approach meets their standards for care of the environment. In 2001, our Contract Drilling Group initiated an external audit of its environmental systems that was aimed at identifying opportunities for improvement and for developing processes and management systems that will enhance reporting and monitoring of activities at a corporate level.

We also continued to work closely with the people in the communities we serve, to help them realize a better quality of life. In December 2001, we were proud to join hands with four east-central Alberta First Nations to create Four Lakes Precision Drilling Limited Partnership – the first drilling partnership to be created by Alberta's aboriginal communities, with a four-year drilling contract guaranteed by Alberta Energy Company.

Through the work of our donations committee, we helped meet the medical, education, social and athletic needs of the public in 2001 by donating to more than 150 individual groups or organizations.

LOOKING FORWARD

The new year began as a challenging one for our industry. Analysts forecast activity will decline between 20% to 30% in North America throughout 2002, but will rebound significantly in 2003.

We know market conditions will be tough, but we have been through tough times before. In preparation, we have streamlined parts of our infrastructure and reallocated people and equipment internationally. Our management focus will be on doing what it takes to prosper.

We have also refocused on another of our top priorities – nurturing customer relationships – because success is built over the long-term. Our diverse service offerings, coupled with our customers' large land base, means we are able to discover and realize new opportunities to our mutual benefit.

Global opportunities exist and we are well positioned to take advantage of them, although this may take some time to develop.

The United States has one of the most mature hydrocarbon basins in the world and will be severely challenged to sustain deliverability of gas to meet the current demand of 50 plus billion cubic feet per day. Decline rates of newly tied-in wells are approaching the 30% level. In addition, advanced technology like high horsepower fracs and controlled pressure drilling techniques that produce less reservoir damage, will not significantly enhance gas supply. An additional reality is that the US economy is already showing signs of recovery with forecasts of growth in Gross Domestic Product in both 2002 and 2003. These fundamentals suggest there is no $2.00 or even $3.00 gas in the lower 48 states left to be discovered. This is positive news for the oilfield service sector as we can expect heightened activity.

North American energy companies must develop gas prospects in new areas such as, northern Alaska, the Ladyfern area of British Columbia, the northern Mackenzie Delta and the East Coast. Additionally, over the long term, we must apply emerging technologies for extracting coal bed methane and encourage the acceptance of transportation of liquid natural gas from areas outside North America. However, in the near term, these prospects will do little to add to the gas supply to allow North America to handle the challenge of a potential critical gas shortage. Further south, resource-rich Mexico continues to be a net importer of energy and struggles to meet its own energy requirements, so we should not expect any surplus capacity from this country.

Outside North America, where oil is the dominant hydrocarbon sought and developed, we see tremendous opportunities for Precision's services. Our global operations are poised to take advantage of the less volatile international markets. Our success will grow with our ability to penetrate new markets and introduce our new technologies. This, in turn, will strengthen our international revenue stream and reduce our dependence on the cyclical North American markets.

Dedicated people, superior assets, leading-edge technology and a global presence – this is the formula for success upon which Precision is being built and upon which we will continue to flourish.

We thank our shareholders for their continued support of the efforts of our Board of Directors and our entire Precision team. We are ready to take on the challenges of our changing world – and we are confident it will be an exciting and rewarding journey.

HANK B. SWARTOUT

Chairman of the Board,

President and Chief Executive Officer

March 14, 2002

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this annual report, including statements which may contain words such as "could", "should", "expect","believe","will" and similar expressions and statements relating to matters that are not historical facts are forward-looking statements including, but not limited to, statements as to: future capital expenditures, including the amount and nature thereof; oil and gas prices and demand; expansion and other development trends of the oil and gas industry; business strategy; expansion and growth of the Corporation's business and operations, including the Corporation's market share and position in the domestic and international drilling markets; and other such matters.

These statements are based on certain assumptions and analyses made by the Corporation in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results, performance or achievements will conform with the Corporation's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Corporation's expectations, including: fluctuations in the price and demand of oil and gas; fluctuations in the level of oil and gas exploration and development activities; fluctuations in the demand for well servicing, contract drilling and ancillary oilfield services; the existence of competitors, technological changes and developments in the oil and gas industry; the ability of oil and gas companies to raise capital; the effects of severe weather conditions on operations and facilities; the existence of operating risks inherent in the well servicing, contract drilling and ancillary oilfield services; political circumstances impeding the progress of work in any of the countries in which the Corporation does business; identifying and acquiring suitable acquisition targets on reasonable terms; general economic, market or business conditions, including stock market volatility; changes in laws or regulations, including taxation, environmental and currency regulations; the lack of availability of qualified personnel or management; and other unforeseen conditions which could impact on the use of services supplied by the Corporation.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Corporation will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Corporation or its business or operations. The Corporation assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

CONTRACT DRILLING GROUP

Decisive in providing Solutions

The Contract Drilling Group is made up of seven business units:

- *Columbia Oilfield Supply Ltd.*
- *Live Well Service*
- *LRG Catering Ltd.*
- *Precision Drilling*
- *Precision Drilling International*
- *Precision Well Servicing*
- *Rostel Industries Ltd.*

Together, these business units give our customers access to 248 drilling rigs, 257 service rigs, and 24 rig assist snubbing units. They also provide the complete range of support services needed to ensure a successful drilling venture, from on-site camps and catering, to procurement and distribution of oilfield supplies, and manufacture, repair and sale of drilling equipment.

that work
TO MEET OUR CUSTOMERS' NEEDS

TAKING DRILLING TECHNOLOGY IN NEW DIRECTIONS

The Challenge *Petro-Canada, a leading Canadian energy company, wants to start the first phase of its commercial steam assisted gravity drainage (SAGD) project on the northern Alberta oil sands. They need a slant rig with a central system and pulldowns.*

Our Response *Precision is eager to help. We are Petro-Canada's alliance drilling partner in the Western Canadian Sedimentary Basin and also have extensive experience in oil sands drilling. Before the contract is even finalized, we work with our client on ways to adapt our Super Single ™ slant rig to meet the particular challenges of the SAGD project.*

The Result *A meticulous planning process and a collaborative customer approach enable us to build a new slant rig and to complete the first phase of drilling in September 2001 – coming in under budget and four months ahead of schedule.*

HOW WE DID IT

Oil sands drilling poses particular challenges. At Petro-Canada's project near the northern community of Fort McKay, the oil sands are too deep for surface mining, too shallow for conventional drilling, and have to be developed in-situ (in place) to be commercial. The unique properties of bitumen present complications: over-warming the unstable oil sands can result in significant wellbore problems.

Slant drilling has solved many of the problems associated with oil sands drilling at shallow depths, with Precision as the pioneer in the development of slant drilling rig technology.

LEADING-EDGE TECHNOLOGY

Slant technology differs from conventional directional drilling by allowing wells to spud at an angle to give a short, more direct route to the target. It can be faster and more productive than conventional directional drilling and helps minimize environmental impact because multiple wells are developed from one pad location.

Precision's Super Single™ rig, developed in the early 1990s, has evolved over several generations to offer such benefits as fast and simple movement between sites, remote control features that minimize manual labour, control processes that alleviate safety concerns, and the ability to drill a number of different kinds of wells.

However, Petro-Canada was looking for a slant rig with a central system – one where auxiliary drilling equipment stays in one spot and only the floor and derrick move quickly between wells.

BUILDING THE SOLUTION

Precision's involvement began in 1999, when Petro-Canada contacted our marketing department in Calgary to discuss the particular challenges of their SAGD commercial project.

Working collaboratively with the client, the marketing team looked at existing conventional pad rigs and Super Single™ rigs that had been adapted to provide some of the features required. They then prepared two estimates: one based on a day rate for an existing rig, and one for a day rate of a new rig that could be developed to meet all the customer's requirements.

In early 2000, the client gave Precision the go-ahead to build a new custom-designed slant rig from the latest Super Single™ rig generation. Precision's operations and engineering team finalized the "want list" of features with the client and put together a capital cost for its development. Marketing and accounting hammered out the commercial terms of the project and prepared a letter of intent in preparation for working out a more detailed contract with the client's drilling operations group and legal counsel for both sides.

Meanwhile, Precision Drilling's Operations Support Centre (OSC #1) had already begun sourcing equipment and components needed for the rig, an effort that involved our Technical Support Centre; Columbia Oilfield Supply, our purchasing arm; and Rostel Industries, our machine shop in Calgary. All four groups worked at securing supplies from internal and external sources.

Our accounting team also became involved, using our Authorization for Expenditure System for cost tracking and control. This high-end accounting software tracks, associates and allocates costs with every component, professional service and man hours involved in the project.

With formalization of the contract in July 2000, the rig building process went into full swing. Our operations team took the lead role, with support from Precision's engineering team, one of the few in-house engineering groups found in the Canadian drilling service industry. They helped to address specific concerns of Petro-Canada, such as configuration of the rig on the pad to minimize environmental impact.

Special features of the new rig included a differential pressure torque monitoring system, rig floor winches configured to apply pull down force, a central system and service utility connections that are separate from the rig module, rig moves optimized with computer-assisted design modeling, and a central mud system that accepts specialized cooling and solids control equipment.

Throughout the process, Petro-Canada was continuously involved with our operations group so both sides could stay on top of developments.

As the rig neared completion, a superintendent was assigned by our operations group. In turn, the superintendent designated a rig manager. Together, they worked with personnel and began recruiting out of Edmonton to fill the 16 positions needed to operate the rig. The right balance was struck between people with slant rig expertise and those without. New workers completed a thorough two-and-a-half day training course, which emphasized safety.

GETTING DOWN TO WORK

Ready in mid-December of 2000, almost two months before its first use by Petro-Canada, the new rig was launched at a ceremony with the customer and other involved stakeholders at Precision's OSC #1 in Calgary.

When another energy company asked if they could use the rig on their oil sands project while their own Precision-built version of the rig was under construction, Petro-Canada agreed. The rig was moved to location between Christmas and the New Year, and drilling operations began on two wells, christening the rig in the field and proving its success.

Petro-Canada started its own operating phase, with the first well being drilled on February 17, 2001. The learning curve was minimal and, within a month, the fifth well was drilled as fast as those that followed.

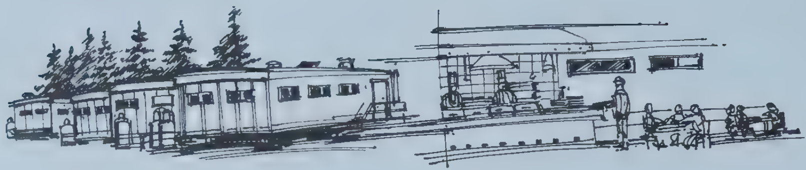
Throughout work in the field, Precision Drilling used an on-site electronic drilling recorder to capture the operations daily log, streamline the process and reduce paperwork. This allowed our billing team to download the daily log from their computer and generate invoice and payroll requirements.

No significant operating problems arose with this project due to two key ingredients: a customer that kept Precision involved and informed at every stage of the project, and comprehensive planning for use of equipment and people by both parties.

The results of the collaborative approach speak for themselves. By September 22, 2001 Precision had drilled the last of Petro-Canada's 25 well pairs – or the equivalent of 50 horizontal wells – coming in under budget and four months ahead of the planned February 2002 completion date.

To complete the story, Petro-Canada then called upon Precision Well Servicing to provide a fit for purpose slant service rig to facilitate well servicing requirements.

RENTAL AND
PRODUCTION
GROUP



Responsive in supplying Comprehe

*CEDA International Corporation, profiled in the following story, is one of three business units that make up **Precision's Rental and Production Group:***

CEDA International Corporation
Energy Industries Inc.
Montero Oilfield Services Ltd.

*Through **Energy Industries Inc.**, we have set the industry standard for excellence in packaging tailor-made portable gas compressor units for the energy industry in Canada. New well production in combination with declining reservoir pressures and production rates have almost doubled the demand for gas compression over the past decade – and Energy Industries is kept busy putting its field engineering to use in building well-engineered and easily-serviced compression packages.*

Montero Oilfield Services Ltd. – comprised of Ducharme, Big D and Smoky Oilfield Rentals – is Canada's largest oilfield rental services company. Servicing customer rental needs at the wellsite, Montero provides wellsite trailers, including custom-built trailers; downhole equipment such as drillpipe; and surface oilfield equipment, including blowout preventers for drilling and patented vapour tight separators used for various completion and production purposes.

sive services

WHEREVER THEY ARE NEEDED

OPENING DOORS WITH TURNKEY SERVICES

The Challenge: *A major refinery seeks a general contractor to provide maintenance services in a tight time frame during the annual turnaround of their extraction and circulating unit (CU2) facility in Alaska.*

Our Response: *The only Canadian industrial maintenance and turnaround company that offers refineries one-stop, turnkey solutions, CEDA International Corporation wins the contract in November 2000. During six months of careful planning, CEDA works with the client and calls on internal resources from across North America to ensure the right people are at the right location at the right time.*

The Result: *Working two, 12-hour shifts for five days, the vertically-integrated CEDA teams complete the April 2001 turnaround on time, on budget and to the highest safety standards.*

HOW WE DID IT

Time is money in the refinery business, and any facility shutdown is a major cost and production concern. For many facilities, shutdown for annual maintenance and turnaround can gobble up between three or four weeks of valuable time – and is often handled by a general contractor who hires outside resources for different parts of the job and then coordinates their independent schedules and agendas.

In this instance, the narrow turnaround time would minimize our customer's exposure to downtime, but would tax the resources of any traditional general contractor.

CEDA provided the ideal, one-stop solution. While we can supply any of the maintenance and turnaround services needed, we are the only company in Canada and one of only two in North America that can supply them all internally – including waste minimization using a mobile filter press, bundle extraction services, bolting services, bundle washing services with water recycling, chemical cleaning, vacuum services, scaffold services and rigging personnel, and safety.

When our Alaskan customer hired us, they hired a team of specialist groups that arrived with the same attitude and understanding. Because all are part of the CEDA organization, communication is not an issue, redundant administrative staffing is eliminated and teamwork is established from the beginning.

MOBILIZING RESOURCES

The idea of having one company provide turnkey, total turnaround services was first presented to our customer by CEDA's division manager in Bellingham, Washington. The idea was accepted, and our Bellingham group took the lead role in coordinating planning for the project.

Teamwork was crucial and began six months before any of the actual work on site. The team in Bellingham had the expertise to handle the mechanical work though help was needed for bundle washing and chemical cleaning. It was decided those tasks would be managed by CEDA's chemical cleaning and special services groups in Edmonton. Team leaders were assigned to all three areas of work, and cost estimates put together.

Next, the right resources and personnel had to be selected from across Canada and the US. Most came from our northern groups, but the chemical cleaning team pulled in a chemical supervisor out of Sarnia, Ontario, and one out of Houston because of their availability and experience. In total, 100 people were needed and we concentrated on giving our customer the best of the best.

As with any large project, flexibility was needed to overcome hurdles. With this project's tight time frame, no one could show up a day late. Equipment could not be delayed even by an hour.

A $250,000 mobilization effort was launched. All information related to equipment and personnel was fed to the Bellingham team, which coordinated scheduling with the help of a planner in Edmonton. A total package detailing the necessary people, resources, costs and timing was presented to the client, and a contract issued.

All personnel were allocated two months ahead of the actual job, but adjustments had to be made up to the date of some flights, as other jobs and priorities were balanced with the needs of our client.

Movement of equipment was handled in two ways. The Bellingham office arranged a barge out of Seattle for equipment that could be spared from other duties for up to 30 days. Specialized equipment arranged through our Edmonton office travelled by commercial freightliner to accommodate tighter time frames on other jobs before and after the Alaskan project.

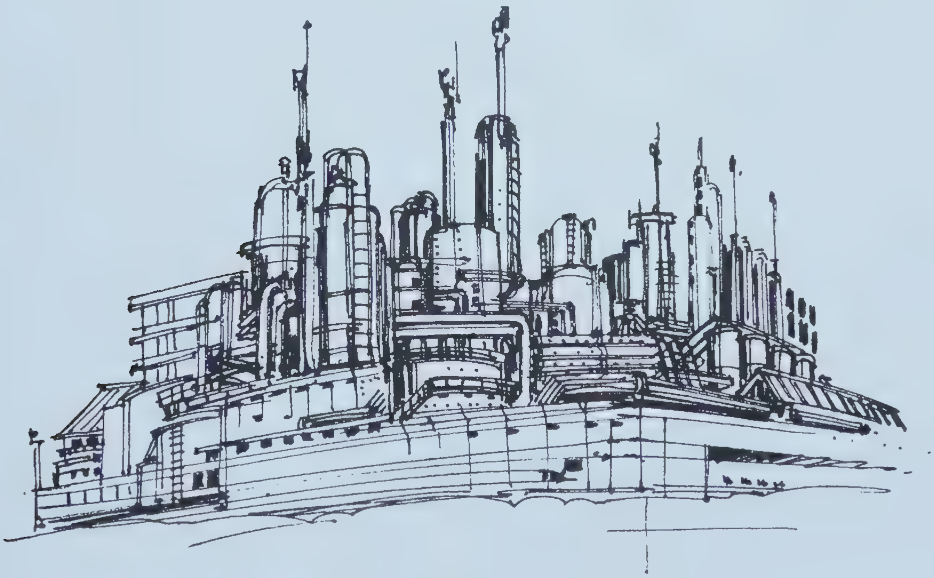
STAYING ACCOUNTABLE

Before on-site work began, staff from Bellingham and Edmonton's special services team travelled to Alaska to discuss plans and talk to the customer's shutdown manager to ensure everyone was familiar with the project. Because of the tight time frame and high expectations associated with the project, CEDA's operations manager in Minnesota – to whom the Bellingham group reports – flew in to lend support during actual execution of the project.

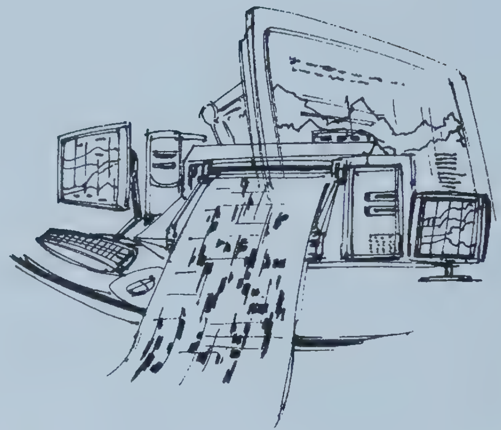
Once CEDA's crew arrived on site, we worked closely with our customer on the progress of the job. Our administrative staff provided daily updates to the customer that listed costs, daily living expenses, and cost accounting functions.

Every shift began with a "tool box talk" with the Bellingham division manager going over any risks, reviewing experiences from the previous shift, and discussing what to look forward to in the upcoming shift, with an emphasis on safety. A safety management team was brought on site to monitor the general well-being of all personnel and provide training and daily site inspections, while making sure all of CEDA's safe work practices and procedures were implemented. In the five days, there was only one trip to the first aid box for a small bandage.

We said we could do it in five days – and we did, thanks to our ability to bring all the services into the plant under one coordinated management structure. Hats off to all the CEDA and customer personnel involved!



TECHNOLOGY
SERVICES GROUP



Innovative in delivering Outstan

In 2001, a number of Precision's oilfield specialty services were branded internationally under the ***Technology Services Group*** *(TSG) umbrella to give our customers one-stop, global access to a wide range of products and services. The group is comprised of:*

Advantage Engineering Services, Inc.
Challenger/Silverline
Computalog Drilling Services
Computalog Wireline Services
Fleet Cementers, Inc.
Northland Energy Corporation
Plains Perforating Ltd.
Polar Completions Engineering, Inc.
United Diamond Ltd.

Together, these business units offer our customers a powerful range of services and products, including polycrystalline diamond compact drill bits, wireline and directional drilling services, sophisticated downhole completion equipment, MWD/LWD systems, well cementing, stimulation services, well testing and controlled pressure drilling systems.

Regional centers have been set up to make it easier and more efficient for our clients to access TSG services in Canada, US, Latin America, Europe/Africa, Middle East and Asia/Pacific.

ng results

THROUGH OUR TECHNOLOGY AND EXPERTISE

LOGGING NEW POTENTIAL IN VENEZUELA

The Challenge: *Venezuela's national oil and gas company wants to monitor the fluid contact levels and determine the bypass development potential of a number of its wells in the San Tomé area of eastern Venezuela.*

Our Response: *Computalog Wireline Services, a member of Precision's Technology Services Group, applies Precision's logging and evaluation expertise to the project. Using our sophisticated Pulsed Neutron Decay - Spectrum (PND®-S) tool, Computalog determines that an upper zone previously thought to be in the gas cap shows potential for oil production.*

The Result: *After discussion and reevaluation of the interpretation, our customer selects the well for recompletion in October 2001. Computalog's findings are confirmed. The well produces 470 barrels of light oil per day with a very low gas-to-oil ratio – and extends our customer's field, adding 1.2 million barrels of oil in reserves.*

HOW WE DID IT

It is often said that log interpretation is both an art and a science. In this case, Computalog brought some of both to the table – in the form of its highly-skilled evaluation team and our cutting edge PND®-S technology.

The highly-skilled evaluation team of our Venezuelan customer had delineated dozens of wells within the field for potential recompletion. Oil was expected from the lower sands, but the well in question had an upper zone in an area thought to be within the gas cap.

Computalog's evaluation of the PND®-S data indicated other results when the well was logged in September 2000.

A SOPHISTICATED TECHNOLOGY

Pulsed neutron decay tools utilize a neutron generator to produce pulses of high energy neutrons. The neutrons emitted by the tool interact with the formation to produce gamma rays, which are measured and interpreted to determine formation lithology, porosity and fluid types.

Computalog's PND®-S tool is unique in its approach to formation evaluation, but it is the expertise of our log analysts that transform the data into relevant information allowing Computalog to stand out within a highly competitive industry. They are experts in a wide range of logging services including open and cased hole logging, production logging and pressure testing.

GAINING TRUST

In the case of this particular well in the San Tomé field, use of our PND®-S tool was suggested by our Technical Support Engineer in El Tigre, one of our Venezuelan operations bases. After initial discussions with the customer, we recommended use of the PND®-S technology on a number of wells in the area because it supplied the kind of information needed to better delineate the field.

Computalog's district manager was informed of the upcoming job and when the customer called to commence work, a crew of three was ready to move with a unit which had the PND®-S tool. Before work on this job commenced, the crew got together for a Computalog standard: a pre-job meeting where safety issues associated with the job were identified and discussed.

On-site collection of the log data took only eight hours, with a copy of the digitally formatted raw data sent to both our office in El Tigre and the customer. It was then up to Computalog's log analyst to run that data through our special interpretation program and analyze the results, a process which took many more hours. Documentation was prepared and both our marketing representative and log analyst made a presentation to the client, along with their conclusion.

Our customer was understandably cautious. If a well is perforated into an oil-producing zone and mixes with gas, the well can be damaged and cause costly repairs. When the well under question was selected as a candidate for workover in October 2001, the customer's reservoir engineers wanted to take another look at the interpretation.

After reworking the original data and interpretation, our Computalog log analyst verified that the first interpretation was correct. Our Computalog team returned to the client with the same conclusion. We showed oil where their field delineation expected gas.

The client decided to perforate the well, taking a calculated risk that paid off and added a million barrels to their oil reserves. Computalog confirmed the customer's faith in our tools and expertise and earned more work in a pivotal oil-producing region of the world.

EXPANDING OUR EXPERTISE IN VENEZUELA

Computalog has a decade of experience under its belt in Venezuela, one of the international regions where almost all members of our TSG group are active. In addition to providing onshore services in the eastern part of the country, Computalog has performed cased hole services and production logging since 1997 on Lake Maracaibo in western Venezuela.

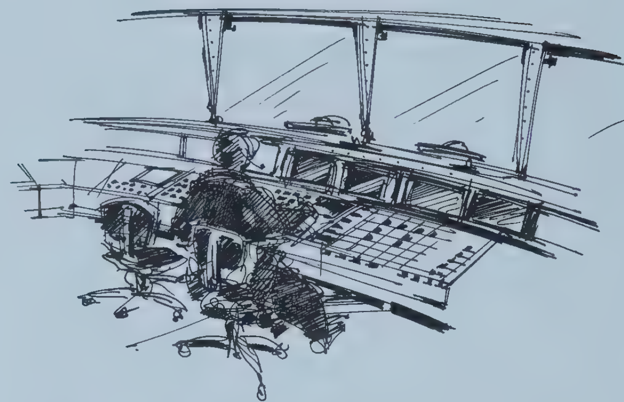
This huge body of water – 175 km long, 124 km wide and 50 m deep – is dotted by 21,000 wells, 13,000 of which are active. A field that has been active since before World War II, Lake Maracaibo offers plenty of opportunity for use of all Computalog services – from new well completion, evaluation of production problems, and casing inspection services to production and PND logging.

It also presents a unique offshore environment, which has necessitated some changes to the way we usually work. Most of our work is performed on one of two Precision barges that are towed to location by a tugboat. A one-way trip can be as long as 12 hours, depending on the location and weather.

Use of a barge means our operators must determine and mark with buoys a pattern for the anchors needed to best situate the barge in front of the well. Divers are sent down to ensure the anchor area is clear of hazards. The wireline equipment and lubricator is rigged up inside scaffolding that is erected over the wellhead. Computalog's own crew perform many of the numerous intervention services, but local contractors are used for tugboat, diving and scaffolding services.

The ability of Computalog, and the rest of TSG, to adapt to this environment and to apply the tools and expertise we have developed onshore, is part of our overall success story. We have earned our customers' confidence because we are responsive to their needs, and ready to work with them to realize new or previously-untapped production potential.

INTEGRATED SERVICES



Integrated to give One stop

TURNING LEARNING CURVES INTO NEW MARKETS

An integral part of achieving success in the international market is learning through experience.

In undertaking the multi-well integrated services project highlighted in this following story, Precision added to its expertise. For example, the geology in the Burgos Basin is different than that experienced in the Western Canadian Sedimentary Basin. The rock fractures more easily and the reservoir pressure is higher. The window for successfully operating between these two conditions is narrower than Precision has been used to – and we quickly learned to fine tune our equipment and procedures accordingly.

The climate is also different, with massive rains from September to November which present a serious flood potential and lead to road washouts. We learned how to move rigs around flooded areas, and to plan those moves to better suit the season.

We also benefited from learning a new culture and making new contacts among subcontractors and local specialists.

While it is difficult to put a bottom-line value on such lessons, they help open the doors in a country that currently produces four billion cubic feet of natural gas per day, but that needs to produce a projected 10 billion cubic feet of gas per day to keep pace with future demand.

In September 2001, Petróleos Mexicanas (PEMEX) awarded a second contract to Precision, this time for an integrated multi-well contract for controlled pressure drilling and separation services in the southern region of Mexico. A third was awarded in October for directional drilling services, logging-while-drilling and drill bits.

We look forward to applying our unique brand of Canadian expertise and technology, as well as our lessons learned, in this and other new ventures around the world.

ccess to excellence

ON SIX CONTINENTS

PUTTING IT ALL TOGETHER IN MEXICO

The Challenge: *PEMEX, Mexico's national oil and gas company, tenders an integrated servicing project worth approximately US $270 million for the drilling of 240 wells in the gas-rich Burgos Basin by June 2003.*

Our Response: *In our first venture into the Mexican market, Precision joins forces with BJ Services Company and draws on a number of Precision's internal, vertically-integrated service groups to win the contract in March 2001. As lead contractor, we are responsible for providing our own drilling rigs, directional drilling services, logging and completion products and services, slickline wireline services, production testing – and non-core services such as civil construction and pipeline tie-ins.*

The Result: *After setting up a complete Mexican infrastructure for our operations, including the formation of several new companies, Precision spuds its first well ahead of schedule on May 12, 2001. We continued to meet and surpass every contract drilling milestone to the end of 2001, with more than 90 wells drilled.*

HOW WE DID IT

Our advanced drilling technology was Precision's calling card in this success story.

When PEMEX attended the National Petroleum Show held in conjunction with the World Petroleum Congress in Calgary in June 2000, they were impressed by Precision's Super Single™ rig. Field tours hosted by Precision intensified their interest in how quickly shallow wells could be drilled in Canada – and led to Precision's inclusion on the tender call for their Burgos project.

Such technology was important to PEMEX in drilling the shallow reserves of the Burgos Basin, which covers more than 50,000 square km in northern Mexico and has natural gas potential estimated as high as 75 trillion cubic feet. Many of the existing rigs in Mexico are designed for much deeper drilling.

Our technology may have engaged PEMEX's interest, but it was our depth of services and attention to detail that secured us the business.

A COMPREHENSIVE SOLUTION

There were six core services which PEMEX expected of its lead contractor: drilling rigs, directional drilling, wireline logging, cementing, fracturing and coil tubing. By forming a joint company with BJ Services Company, who was already active in Mexico, the new venture was able to supply all of the required services.

However, what we provided – under a tight time frame and despite language and other cultural hurdles – went far beyond those core services.

As lead contractor and project manager, Precision was also responsible for subcontracting civil construction of roads and drilling locations, permitting, pipeline installation, well construction, completions, well stimulation and pipeline tie-ins. Between the awarding of the contract in March and the spudding of the first well less than two months later, our Precision team hit the ground running.

Precision's Technology Services Group provided coordination for the project, splitting a long list of tasks among their staff in Calgary and around the world. Several new companies were incorporated, and all administrative functions set up, to create the framework for Precision to provide turnkey services in Mexico to complete the project.

Before drilling could start, office space had to be located and refurbished. A workforce made up of approximately 80% nationals was hired, including local project management personnel and 160 rig workers. In total, the project directly employs approximately 300 people and a similar number of people though subcontractors.

Supply agreements for casing, line pipe, wellheads and other materials for drilling were arranged and finalized by TSG staff and corporate legal counsel in Calgary. A Calgary firm was also contracted to supply drilling fluids. They responded by building a liquid mud plant from scratch in Mexico.

CALLING ON A WORLD OF RESOURCES

With pre-drilling and infrastructure work going on in the background, a number of Precision businesses were called upon to supply products and services: Precision Drilling International for rigs; Computalog for directional drilling services, open hole logging, cased hole logging and completion services; Challenger/Silverline for slickline wireline services; Northland for production testing; United Diamond for polycrystalline diamond compact (PDC) drill bits; and Polar Completions for completion products.

The Canadian operations teams of each business unit coordinated mobilization, logistics and documentation with their Precision counterparts in Mexico, keeping in touch with daily conference call meetings.

Precision rigs were moved out of both Canada and Venezuela, including the first two Super Single™ rigs ever used in Mexico; wireline trucks came from Canada; and directional drilling equipment was manufactured and shipped out of Edmonton. Additional equipment was made available through the purchase of testing assets in Mexico which are now part of Northland.

Meanwhile, the dedicated health, safety and environment specialists within TSG were overcoming challenges of their own. Prior to coming under the TSG umbrella, each of the Precision business units involved had their own health, safety and environment standards. All had to be organized into one communications and management structure where a uniform set of Precision standards could be implemented. Since this was Precision's first foray into Mexico, our team had to develop strategies that accommodated Mexican legislation, a different social culture, and differing corporate cultures both within and outside of our operations.

Following the recruitment of the local workforce, Precision's health, safety and environment personnel were dispatched from both Canada and South America to coordinate and deliver orientation and training programs to over 160 new employees – all staged through an eight week period.

SURPASSING EXPECTATIONS

The Precision team set an early start for the drilling work so they could gain knowledge of the local environment and drilling conditions and achieve optimal efficiency as soon as possible.

The first well was spudded on May 12, 2001, five days ahead of schedule. By the end of July 2001, five rigs were operating. We were able to put our new knowledge to work quickly to maximize our performance.

In Mexico, the historical average move time for PEMEX operated rigs is approximately five days. Adapting the technology and expertise that has made us the leader in Canada for number of wells drilled, the move time for our rigs averaged between 24 and 36 hours, and was sometimes as fast as 12 hours.

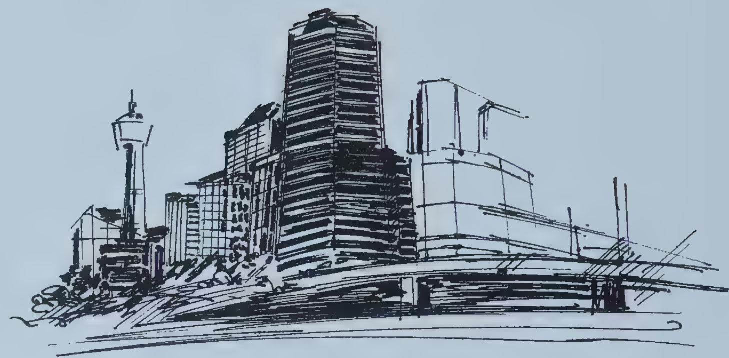
It was a new experience for our customer, who had never seen a rig release, move and spud a new well in the space of one day. In fact, we actually found wells were being drilled so quickly, a backlog had developed on completion work.The completions group rose to the challenge and are now keeping pace with the drillers. Our target is to drill the wells, complete and tie them in within 30 days.

By the end of August 2001, we surpassed the contract drilling milestone of 35 wells by three, and by the next milestone at the end of November 2001, we were nine wells ahead of the target of 67.

As 2002 began, we were still ahead of target and discussing with PEMEX the possibility of bringing in even more than 240 wells by the June 2003 contract end date.

Precision proved it has the core strengths, depth of resources and comprehensive expertise needed to make an international project of this scale a success. More than that, we demonstrated the philosophy behind our corporate culture – doing what we say we will do in a way that is dedicated, decisive and disciplined.

CORPORATE GOVERNANCE



Committed to seeing Precision

Precision's Board of Directors is comprised of seven senior business executives with a wealth of experience and knowledge. They provide a beacon of sound judgement, integrity, creative vision and independent thought that helps guide our Corporation toward its full potential.

They are committed to seeing our Corporation grow and succeed. During 2001, there were 11 Board meetings, with two directors attending all meetings and five directors attending 10 of the meetings. Four Compensation Committee meetings, one Corporate Governance Committee meeting and four Audit Committee meetings were also held, with full attendance by all respective committee members.

All Directors attended the 2001 strategy session in Banff, Alberta, Canada. This session is held annually so Directors can meet with senior and executive management to gain a fuller appreciation of planning priorities and provide constructive feedback.

Our Directors take their work on behalf of the Corporation seriously, as is shown below by their adherence to guidelines defined in The Toronto Stock Exchange Report on Corporate Governance.

1. The Board explicitly assumes responsibility for the stewardship of the Corporation; has established a formal strategic planning process; identifies and considers risks in the operations of the business of the Corporation; annually reviews the adequacy of the Corporation's succession plan; has established a written disclosure policy pertaining to dealing with the media and with respect to all continuous disclosure and public reporting requirements; and the Board and its committees monitor the integrity of the Corporation's internal control and management information systems.

2. Five of the seven directors of the Corporation are independent and unrelated.

3. The Corporate Governance Committee of the Board of Directors, comprised of non-management, unrelated directors, is responsible for the appointment and assessment of Directors. The Corporate Governance Committee also has a mandate to periodically review the effectiveness of the Board and its Committees, provide education and orientation for new Board members, which has been formalized by the adoption of a Director's manual to assist in this process and to assess the size and composition of the Board to determine whether it has all of the necessary constituents for effective decision making. The Board has instituted a policy of term limits of 15 years and an age limit of 70 years.

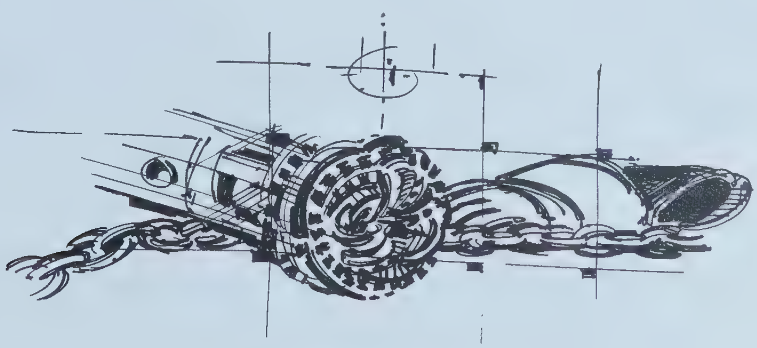
4. The Compensation Committee of the Board of Directors has a mandate to review and recommend to the Board the remuneration for Directors.

grow and succeed
WITH EFFECTIVE, INDEPENDENT GUIDANCE

5. The Audit, Compensation and Corporate Governance Committees of the Board are comprised solely of non-management members, with the majority of committee members being unrelated and each of those committees has a specifically defined mandate.

6. The Board has defined limits to Management's responsibilities by developing mandates for the various Board committees.

7. The Board does not have a Chair separate from Management, however the Board is confident that it has in place proper procedures to enable it to function independently of Management and individual Directors can engage outside advisors with the authorization of the Corporate Governance Committee of the Board.



CORPORATE INVOLVEMENT
– PARTNERSHIPS

Committed to providing Industry

WORKING TOGETHER TO REALIZE OPPORTUNITIES

[illegible]	*In late 2000, discussions between stakeholders in the Cold Lake area of east-central Alberta sparks an idea for a new joint venture between four Alberta First Nations communities, Precision and Alberta Energy Company (AEC).*
[illegible]	*Committed to supporting economic development within Alberta's aboriginal communities, Precision Drilling agrees to provide operational support for the new venture, and build a $4.6 million Super Single™ rig. AEC guarantees a four-year drilling contract for that rig.*
[illegible]	*In December 2001, a rig launch and celebration are held in Cold Lake to mark the creation of Four Lakes Precision Drilling Limited Partnership, the first drilling partnership to be created by Alberta's aboriginal communities.*

HOW WE DID IT

At Precision, we believe community involvement is a natural outgrowth of our leadership role in the energy industry. Within Canada and around the world, we work with local contractors and suppliers whenever possible, and encourage the hiring of local people to complete our workforce.

We are a particularly strong supporter of developing business and employment opportunities for western Canada's aboriginal communities, many of which are situated on the energy-rich Western Canadian Sedimentary Basin, the Athabasca oil sands and the Mackenzie Delta.

For example, in 2001 we became associated with Mackenzie Delta Integrated Oilfield Services, a company half-owned by the Inuvialiut and involving a conglomerate of other companies active in energy development in the region. We have a similar association with Dempster Energy Services, which involves two Yukon First Nations – the Vuntut Gwich'in and the Nacho Nyak Dun.

JOINING HANDS

Our Alberta partnership began when a suggestion was made by AEC to the Treaty 6 group of four First Nations that a federal government grant program could be used to help fund economic partnerships with the private sector. The Treaty 6 group, comprised of the Four Lakes bands of Cold Lake, Frog Lake, Heart Lake and Kehewin Cree Nation, selected Precision as its drilling partner of choice to form a 50/50 drilling rig partnership and create a unique working relationship.

eadership
IN THE WORKPLACE AND THE COMMUNITY

Precision handled the negotiations that led to the signing of the four-year contract drilling commitment by AEC which would underwrite the capital costs of Precision's new Super Single™ rig. The agreements were finalized in the summer of 2001 leading to the formation of the Four Lakes Precision Drilling Limited Partnership in November 2001. Precision also created a new position of community relations manager to build and maintain positive relationships with aboriginal groups.

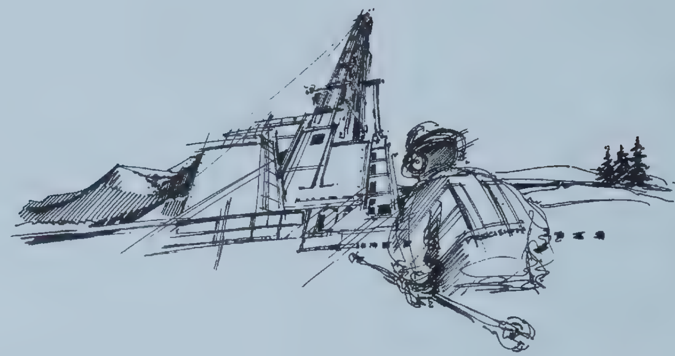
As part of the operating agreement, up to half of the drilling crew would be made up of members of the four First Nations, with Precision Drilling providing additional rig personnel and training. The new Super Single™ rig was commissioned for service in a ceremony at the Cold Lake First Nation area office on December 1, 2001, and spudded its first well four days later.

First Nations employees undergo the same comprehensive workplace and safety training given to any Precision Drilling employee. Potential first-time oilfield workers attend a Precision, 2.5 day orientation course that provides an insider's look at what it is like to work on a rig and introduces the role safety plays in the petroleum industry.

Within the new Four Lakes partnership, Precision Drilling will continue to take a leadership role in working to protect people, property and the environment.

We look forward to the opportunities the Four Lakes partnership presents for increased productivity and profitability for all the parties involved.

CORPORATE INVOLVEMENT – HEALTH, SAFETY AND ENVIRONMENT – COMMUNITY



MAKING SAFETY A PRIORITY

At Precision, safety is always a part of everything we do. We are committed to conducting our operations in a manner that protects people, property and the environment and to providing a safe and healthy workplace for all employees.

While we have a dedicated team of health, safety and environment experts, we believe safety is everybody's responsibility. A target of zero incidents can only be realized if every Precision employee – from senior management to workers starting their first day on the job – accept the need for and practice safe behaviors both on and off the job.

In 2001, several initiatives were launched to give both management and employees more tools for achieving excellence in health, safety and environmental practices.

IMPROVING ACCOUNTABILITY

A new system for tracking and reporting incidents was introduced on a corporate level, providing a uniform means of gathering and interpreting statistics from Precision's individual business units. This has enhanced management's ability to monitor and measure performance on a monthly basis, set corporate goals and objectives, identify areas of concern and allocate resources where needed.

With more than 24 million man hours logged, Precision's overall lost time due to accidents for 2001 was 1.35 accidents per 200,000 man hours, well below industry averages.

In the Contract Drilling Group, Precision directed resources toward the development of new training programs. A manager of field training was hired and course material brought together, beginning with a two day Health, Safety and Environment Excellence Course dealing with the communication and leadership principles needed to lead our programs. More than 200 supervisors, beginning with our Vice Presidents and Senior Managers, were trained in 2001. Practical driver and loader training programs were developed to provide skills to those individuals supervising and operating our vehicles and loaders. The Corporation conducted a two-day observation and communication training program to assist supervisors in identifying at risk behaviors and encouraging safety.

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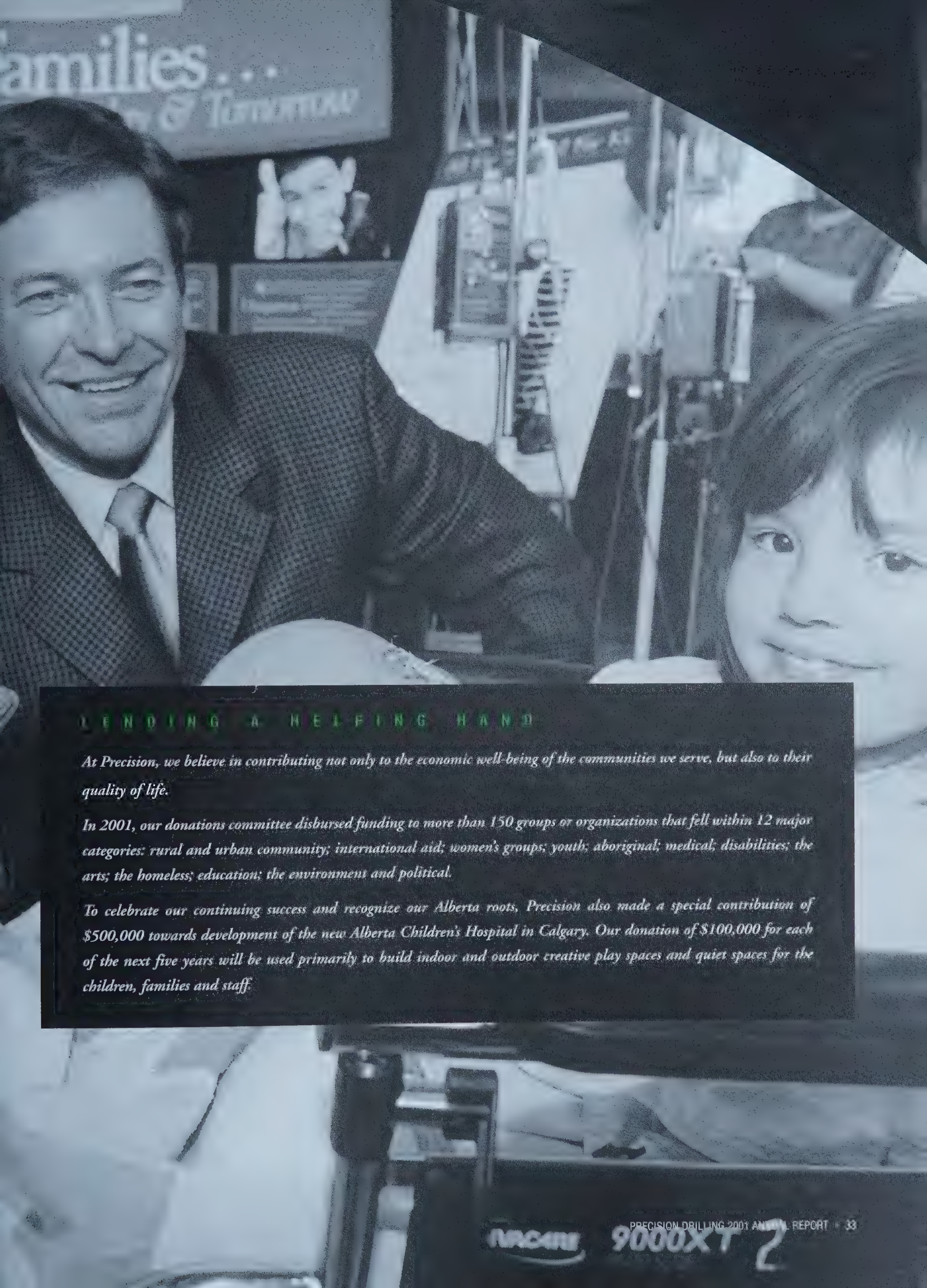


LENDING A HELPING HAND

At Precision, we believe in contributing not only to the economic well-being of the communities we serve, but also to their quality of life.

In 2001, our donations committee disbursed funding to more than 150 groups or organizations that fell within 12 major categories: rural and urban community; international aid; women's groups; youth; aboriginal; medical; disabilities; the arts; the homeless; education; the environment and political.

To celebrate our continuing success and recognize our Alberta roots, Precision also made a special contribution of $500,000 towards development of the new Alberta Children's Hospital in Calgary. Our donation of $100,000 for each of the next five years will be used primarily to build indoor and outdoor creative play spaces and quiet spaces for the children, families and staff.

The Technology Services Group – which has rigorous training, management and emergency response systems in place for the handling of hazardous materials associated with its activities – focused considerable effort in 2001 in developing health, safety and environment systems to support Precision's new regional centers around the world. Dedicated health, safety and environment managers were put in place to help develop, implement and monitor standards in each of the regions.

The Rental and Production Group has health, safety and environmental policies and procedures implemented to meet the complexities of its various operations. CEDA recently introduced a Field Level Risk Assessment system to complement its existing Job Safety Assessments. This program addresses hazards presented by the location of the work and allows for controls to be put in place for each hazard identified – whether that means barricading holes, controlling dust or bringing in a special piece of equipment.

TAKING CARE OF THE ENVIRONMENT

Protecting the environment by working to reduce, mitigate or eliminate potentially harmful effects from any of our activities or operations is a key part of Precision's health, safety and environment management system.

On the contract drilling side, most of our operations are carried out on wellsite leases which are under the control of our clients. We make it part of our job to be familiar with their environmental policies and practices, and those of the regulatory authorities, as we work together to minimize the impact on the environment.

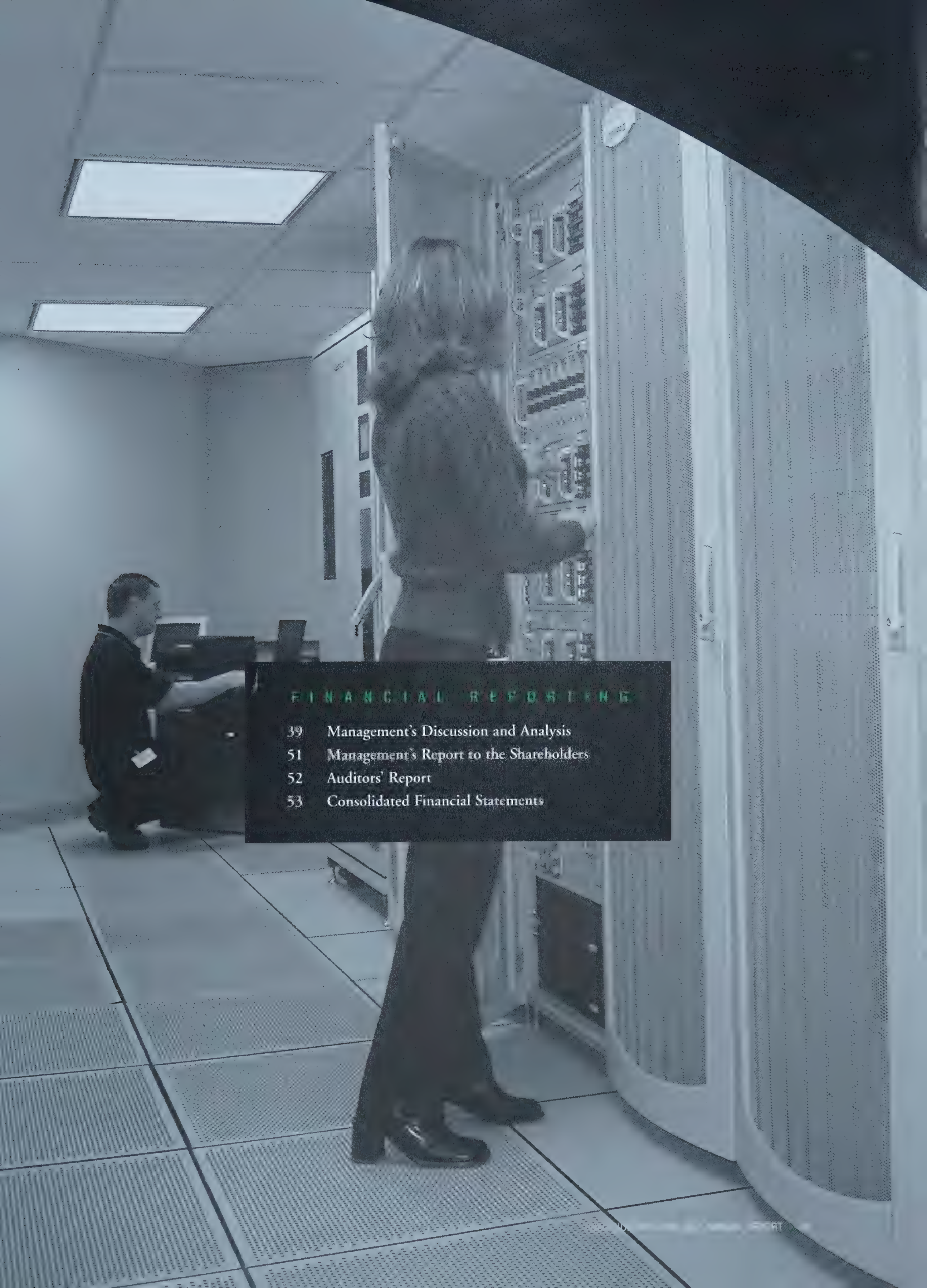
Although the major liability for environmental spills remains with the well operator, we also incorporate environmental protection in our equipment design and operation practices wherever possible.

In 2001, the Contract Drilling Group initiated an external audit of Precision's environmental practices to help identify opportunities for improvement of processes and management systems. Reporting and monitoring was reorganized to provide a corporate focal point and better access to information for management.

Precision's other groups also have comprehensive systems for achieving high standards in environmental performance. The Technology Services Group has operations and facilities worldwide. Where community resources exist, comprehensive recycling programs, which help manage waste oil and filters, glycol, solvents, metals, aerosols and other potentially hazardous materials, are established and implemented. In parts of the world where these community resources are under-developed, or do not exist, TSG works closely with their customers and the multinational waste management contractors to find innovative solutions to hazardous materials management.

In the Rental and Production Group, CEDA is heavily involved in setting and following high environmental standards. The chemicals used by CEDA are all environmentally friendly and can be disposed of safely. Because CEDA's units work on client sites where small spills may occur, they have developed a solid reputation for comprehensive and quick emergency response procedures. In fact, CEDA's experts have been called upon to provide clean-up services for others in the industry.

All groups report to Precision's management on their environmental performance, and management regularly reports environmental practices and serious incidents to our Board of Directors.



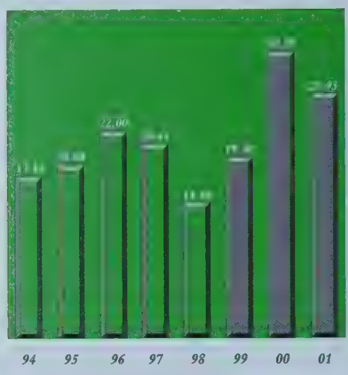
FINANCIAL REPORTING

Group	NAME OF BUSINESS	LOCATION
CONTRACT DRILLING GROUP	Columbia Oilfield Supply Ltd.	Canada
	Live Well Service	Canada
	LRG Catering Ltd.	Canada
	Precision Drilling	Canada, US
	Precision Drilling International	International
	Precision Well Servicing	Canada
	Rostel Industries Ltd.	Canada
TECHNOLOGY SERVICES GROUP	Advantage Engineering Services, Inc.	US
	Computalog	Canada, US, International
	Fleet Cementers, Inc.	US
	Northland Energy Corporation	Canada, US, International
	Plains Perforating Ltd. Challenger/Silverline	Canada
	Polar Completions Engineering Inc.	Canada
	United Diamond Ltd.	Canada, US, International
RENTAL AND PRODUCTION GROUP	CEDA International Corporation	Canada, US
	Energy Industries Inc.	Canada
	Montero Oilfield Services Ltd.	Canada

EQUIPMENT AND FACILITIES	NATURE OF BUSINESS	EMPLOYEES
Warehouse and distribution facility 40,000 square feet	Procurement and distribution of oilfield supplies	39
24 snubbing units, 41% of industry	Hydraulic well assist snubbing	75
74 oilfield camps	Camp and catering	211
233 drilling rigs, 35% of industry in Canada	Contract drilling	3,162
15 drilling rigs	Contract drilling	525
257 service rigs, 28% of the industry	Contract service rigs	1,372
Yard and shop facility, 48,000 square feet	Manufacture, repair and sale of drilling equipment	89
30,000 square feet research and test facility	MWD/LWD tool and equipment research and engineering	48
40 open hole units, 168 cased hole units, 23 slickline units, 2 barges with cased hole skids, 105 drilling systems	Open and cased hole wireline services, directional drilling services	1,721
14 cement units, 12 acid units, 4 frac units, 2 nitrogen units, 6 coiled tubing units	Oil and gas well pumping service, cementing, acidizing fracturing, nitrogen, coiled tubing well servicing	125
196 testing systems, 41 RBOP™, 24 UBD systems	Well testing and control pressure drilling services	595
25 cased hole units, 10 slickline units, 7 combination units	Cased hole logging and perforating, Slickline and mechanical, High pressure and H_2S Pressure Control and Specialty Slickline services	179
Yard and manufacturing facility, 55,000 square feet	Design, manufacture and servicing of downhole completion and production equipment	105
Manufacturing and operations support of 200 jobs/month	Design, manufacture , sales and rental of PDC drill bits	30
144 vacuum trucks, 72 high pressure units, 12 bundle blasters	Industrial maintenance and turnaround services	986
90,000 square feet of production capacity	Packaging, sales, lease, rental and servicing of natural gas compression	259
300 trailers, 10,000 joints of specialty drill stem, 4,000 tools, 3,600 surface units	Wellsite trailers, downhole drilling equipment, surface oilfield equipment	136
	TOTAL AT DECEMBER 31, 2001	9,657

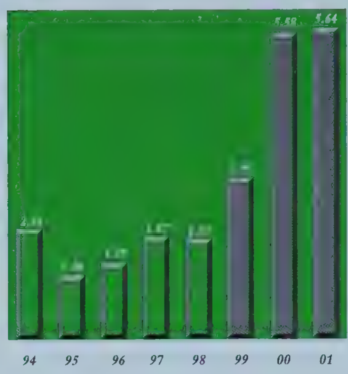
Crude Oil Prices

WTI Calendar year average – US$/Bbl



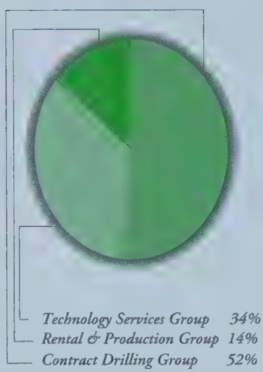
Natural Gas Prices

AECO Calendar year average – Cdn.$/MMbtu



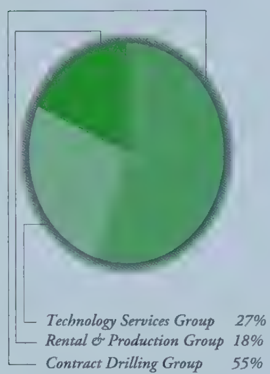
2001 Revenue

Total: $1,953.6 Million



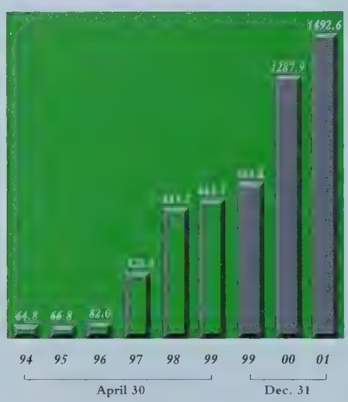
2000 Revenue

Total: $1,355.5 Million



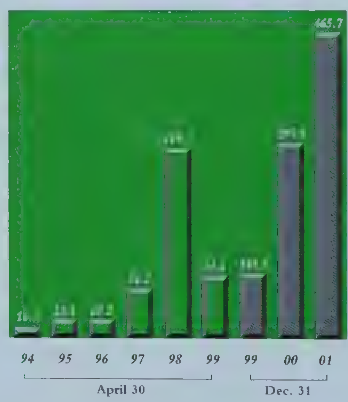
PP&E and Intangibles

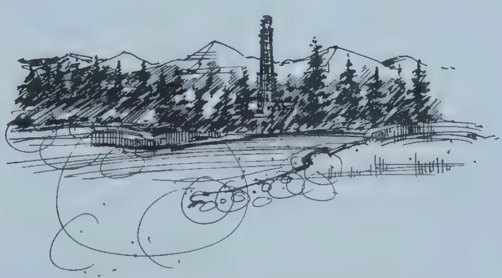
$ Millions



Cash Flow

$ Millions





MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis focuses on key statistics from the Consolidated Financial Statements, and pertains to known risks and uncertainties relating to the oilfield and industrial service sectors. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which could affect the Corporation in the future. In order to obtain the best overall perspective, this discussion should be read in conjunction with the material contained in other parts of this annual report, including the audited Consolidated Financial Statements and the related notes. The effects on the Consolidated Financial Statements arising from differences in generally accepted accounting principles between Canada and the United States are described in Note 13 to the Consolidated Financial Statements.

HIGHLIGHTS (1)

(Stated in thousands of dollars, except per share amounts, which are presented on a diluted basis.)

Years ended December 31,	2001	% of Revenue	2000	% of Revenue	1999	% of Revenue
Financial Results						
Revenue	$ 1,953,563		$ 1,355,453		$ 734,740	
Increase (decrease)	44%		84%		(10%)	
Operating earnings (2)	384,377	20%	260,845	19%	117,494	16%
Increase (decrease)	47%		122%		(35%)	
Earnings before goodwill amortization	219,829	11%	154,321	11%	50,081	7%
Increase (decrease)	42%		208%		(46%)	
Earnings before goodwill amortization per share	4.06		3.06		1.11	
Increase (decrease)	33%		176%		(49%)	
Net earnings	188,044	10%	131,560	10%	34,250	5%
Increase (decrease)	43%		284%		(56%)	
Net earnings per share	3.47		2.61		0.76	
Increase (decrease)	33%		243%		(59%)	
Cash flow (3)	465,673	24%	297,873	22%	101,479	14%
Increase (decrease)	56%		194%		(40%)	
Cash flow per share	8.59		5.91		2.24	
Increase (decrease)	45%		164%		(43%)	
Financial Position						
Working capital	215,919		157,736		162,867	
Long-term debt (4)	496,200		548,096		226,815	
Long-term debt to long-term debt plus equity (4)	0.26		0.31		0.20	

(1) Quarterly financial information for the two year period ended December 31, 2001 is presented on page 3 of this annual report

(2) Operating earnings is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, operating earnings is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principle business activities prior to consideration of how those activities are financed or how the results are taxed in various jurisdictions. Investors should be cautioned, however, that operating earnings should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Precision's performance. Precision's method of calculating operating earnings may differ from other companies and, accordingly, operating earnings may not be comparable to measures used by other companies.

(3) Funds provided by operations

(4) Excluding current portion of long-term debt

SUMMARY INCOME STATEMENT

(Stated in thousands of dollars)

Years ended December 31,	2001	2000	1999
Operating earnings:			
Contract Drilling Group	$ 298,100	$ 212,633	$ 97,864
Technology Services Group	65,309	30,620	6,796
Rental and Production Group	51,678	43,289	19,705
Corporate and other	(30,710)	(25,697)	(6,871)
	384,377	260,845	117,494
Interest, net	43,582	28,713	16,544
Dividend income	(1,106)	–	(1,443)
Gain on disposal of investments and subsidiary	(1,805)	(40)	(24,875)
Reduction of carrying amount of investments	–	–	13,101
Reduction of carrying amount of property, plant and equipment	–	–	10,200
Earnings before income taxes, goodwill amortization and non-controlling interest	343,706	232,172	103,967
Income taxes	123,009	77,851	53,886
Earnings before goodwill amortization and non-controlling interest	220,697	154,321	50,081
Goodwill amortization, net of tax	31,785	22,761	15,831
Earnings before non-controlling interest	188,912	131,560	34,250
Non-controlling interest	868	–	–
Net earnings	$ 188,044	$ 131,560	$ 34,250

Precision achieved record results in 2001 in a business environment characterized by extremes. Revenue of almost $2.0 billion, net earnings of $188.0 million and earnings per share of $3.47 all represented new highs for the Corporation. Early in the year, the oil and gas sector was riding a wave of optimism as natural gas prices were at all time highs and oil prices were very strong relative to historical averages. This strength was depleted with the downturn in North American and world economic activity, which saw the economic output of many countries approach or reach recessionary levels. Natural gas markets in North America were also negatively affected by an abnormally warm winter, reducing the demand for heating fuel. All this was exacerbated by the events of September 11. The highly unusual situation of reduced drilling activity in Canada in the fourth quarter relative to the third quarter is symptomatic of the changed business environment.

Overall, annual oilfield activity levels were at all time highs in 2001 with 17,933[(1)] and 36,990[(2)] wells being drilled in Canada and the US respectively. International activity, which is primarily oil related and comprised of larger projects, remained constant. Throughout the year, Precision continued to concentrate on the execution of its strategic plan, the key elements of which are strengthening the Canadian and US businesses through efficient integration of acquisitions, investment in equipment and people, geographic expansion and technological advancement of our suite of services.

In 2000 and early 2001, the Corporation made a number of acquisitions to further its objectives. During the second quarter of 2000, the industrial plant maintenance group strengthened its operations in the growing northern Alberta oil sands operations with the acquisition of the assets of JJay Exchanger Industries Ltd., an established business in plant maintenance and shutdown work. The acquisition of Plains Energy Services Ltd. (Plains) and CenAlta Energy Services Inc. (CenAlta) in July and October 2000, respectively, enhanced the Corporation's capabilities in coiled tubing drilling and added equipment and people to many other service lines, particularly well servicing. Through these acquisitions, Precision created the largest and most diversified fleet of service rigs in the Western Canadian Sedimentary Basin.

(1) Source: Canadian Association of Oilfield Drilling Contractors
(2) Source: Oil and Gas Journal, January 28, 2002 Estimated US wells drilled during 2001

Also in October 2000, the Corporation acquired the global directional drilling and electromagnetic (EM) measurement-while-drilling (MWD) assets of Geoservices S.A. (Geoservices) of Paris, France and an exclusive worldwide license to its EM-MWD technology. Finally in January 2001, Precision acquired BecField Drilling Services Ltd. (BecField), which has established operations in Europe and the Middle East providing directional drilling and MWD services.

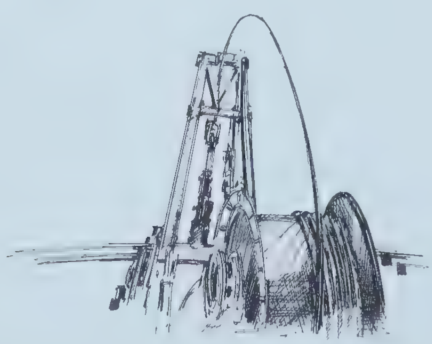
The Corporation's 2001 capital spending program was also its most extensive ever with $371.7 million being spent in the year. Equipment was added in all segments to meet new contract commitments and supply new international operations. In addition, the fleet of service delivery equipment (trucks and on board computer systems, repair facilities) in the Technology Services Group was upgraded in anticipation of rolling out new tools developed by the Corporation's research and engineering efforts.

Geographic expansion has continued at a steady pace with revenue from non-Canadian sources increasing 116% over 2000 to $541.2 million in 2001. Revenue generated by international operations increased to 28% of total revenue in 2001 from 18% in 2000. An important element of the geographic expansion and emergence of Precision as a full service provider is the integrated services project for Petróleos Mexicanas (PEMEX) in the Burgos Basin located in northern Mexico. This 240 well project started, and is expected to be completed, ahead of schedule.

The research and engineering program undertaken by the Technology Services Group intensified in 2001 as spending increased to $32.4 million from $20.3 million in 2000. While the testing phase of the development process has taken longer than anticipated, the research and engineering team has substantially improved upon the timeframe required for this type of work. Certain tools are currently in production with additional tools joining them shortly in the manufacturing facilities. Many of the long lead time components have been acquired to facilitate the manufacturing effort, which is anticipated to result in measurement-while-drilling/logging-while-drilling (MWD/LWD) systems being available to field operations by the end of 2002.

This has all been accomplished while maintaining the Corporation's strong financial position. Working capital has increased to $215.9 million at December 31, 2001 from $157.7 million at the same time last year. The ratio of long-term debt to long-term debt plus equity has declined to 0.26 from 0.31 and the net reduction in long-term debt excluding current portion was $51.9 million during the year.

Precision's operations are managed in three industry segments. The Contract Drilling Group includes drilling rigs, service rigs and hydraulic well assist snubbing units, procurement and distribution of oilfield supplies, camp and catering services, and manufacture, sale and repair of drilling equipment. The Technology Services Group includes wireline, directional drilling, MWD/LWD services, well testing, pumping services for cementing, fracturing and well stimulation, the design, manufacture and marketing of downhole completion tools and the design, manufacture and marketing of polycrystalline diamond compact (PDC) drill bits. The Rental and Production Group includes oilfield equipment rental services, industrial process services and compression equipment packaging, rental, sales and service.



CONTRACT DRILLING GROUP

(Stated in thousands of dollars, except per day/hour amounts)

Years ended December 31,	2001	% of Revenue	2000	% of Revenue	1999	% of Revenue
Revenue	$ 1,010,020		$ 743,544		$ 429,848	
Expenses:						
Operating	603,285	59.7	440,300	59.2	272,589	63.4
General and administrative	33,124	3.3	32,417	4.4	19,359	4.5
Depreciation and amortization	75,511	7.5	58,194	7.8	40,036	9.3
Operating earnings	$ 298,100	29.5	$ 212,633	28.6	$ 97,864	22.8

	2001	% Increase	2000	% Increase	1999
Number of drilling rigs (end of year)	248	1.6	244	10.9	220
Drilling operating days	47,142	8.7	43,376	43.8	30,172
Revenue per operating day	$ 16,097	15.3	$ 13,961	13.8	$ 12,266
Number of service rigs (end of year)	257	–	257	238.2	76
Service rig operating hours	492,480	121.3	222,539	108.3	106,846
Revenue per operating hour	$ 427	12.4	$ 380	11.8	$ 340

2001 Compared to 2000

The Contract Drilling Group saw revenue increase by 36% in 2001 over 2000. This increase was the net result of improved pricing and an increased fleet size with acquisitions completed in the second half of 2000 offset by marginally lower equipment utilization. Price increases realized during the buoyant first half of 2001 were for the most part maintained throughout the remainder of the year.

Operating earnings increased by $85.5 million or 40%, however, as a percentage of revenue remained relatively consistent at 30% in 2001 compared to 29% in 2000. This latter comparison is influenced by the mix of business within the segment. Well servicing operations generate less operating margin than contract drilling rigs. Although well service rig hours experienced 121% growth and drilling rig operating days a mere 9%, overall operating earnings as a percentage of revenue increased due to strong pricing for drilling rigs in Canada and internationally. Cost structures in both businesses have been developed to be as variable as possible with activity levels allowing the Corporation to respond quickly to sudden changes in our cyclical industry. During 2001, Canadian rig labour rates were increased approximately 10%.

Within the Contract Drilling Group, 88% of revenue is generated in Canada. Canadian equipment utilization for 2001 as a percentage of available days was nominally less than last year due to a highly unusual decline in demand during the fourth quarter. Both drilling and service rig operations managed to build and hold pricing gains until late in the year. As 2001 came to a close, competitive pressure was serving to lower customer pricing as available rig supply in the spot market was growing.

Type of Drilling Rig	Depth	2001 Canada	2001 International	2001 Total	2000 Canada	2000 International	2000 Total
Single	to 1,200 m	16	2	18	18	1	19
Super Single™	to 2,500 m	17	3	20	14	3	17
Double	to 3,000 m	99	7	106	102	3	105
Light triple	to 3,600 m	48	6	54	49	4	53
Heavy triple	to 7,600 m	38	1	39	38	2	40
Coiled tubing		11	0	11	9	1	10
Total fleet		229	19	248	230	14	244

Type of Service Rig	2001	2000
Single	4	4
Freestanding mobile single	23	13
Mobile single	91	101
Double	60	60
Freestanding mobile double	5	4
Mobile double	48	49
Heavy double	9	9
Slant	16	16
Swab	1	1
Total fleet	257	257

2000 Compared to 1999

Contract Drilling Group revenue increased by $313.7 million or 73% over 1999 as a result of the combined impact of increased utilization, pricing increases and expansion of the equipment fleet with the acquisition of Plains and CenAlta in July and October 2000 respectively. Operating earnings for the Contract Drilling Group increased to 29% of revenue from 23%. Expense increases, primarily in employee compensation and fuel costs were more than offset by rate increases.

TECHNOLOGY SERVICES GROUP

(Stated in thousands of dollars)

Years ended December 31,	2001	% of Revenue	2000	% of Revenue	1999	% of Revenue
Revenue	$ 669,439		$ 372,425		$ 125,954	
Expenses:						
Operating	438,129	65.4	254,628	68.4	85,695	68.0
General and administrative	81,905	12.2	38,920	10.5	17,529	13.9
Depreciation and amortization	51,656	7.7	27,969	7.5	12,305	9.8
Research and engineering	32,440	4.9	20,288	5.4	3,629	2.9
Operating earnings	$ 65,309	9.8	$ 30,620	8.2	$ 6,796	5.4

	2001	% Increase	2000	% Increase	1999
Wireline jobs performed	37,845	28.6	29,431	220.6	9,179
Directional wells drilled	1,148	15.1	997	–	n/a[(1)]
Well testing/CPD man days (Canada only)[(2)]	60,135	43.9	41,777	70.6	24,493

(1) not available
(2) Controlled Pressure Drilling (CPD)

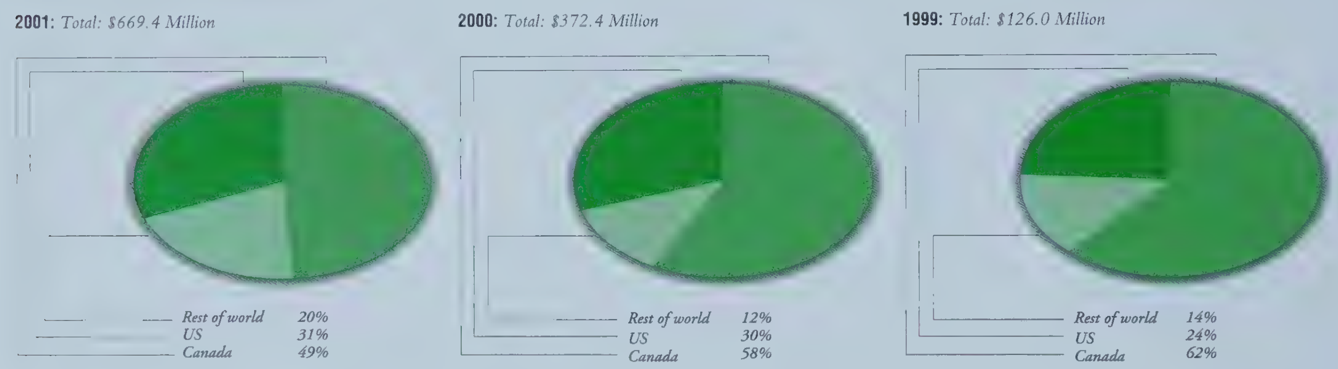
2001 Compared to 2000

In 2001, the Technology Services Group continued to make progress in pursuit of its international growth objectives. Significant effort and investment was directed to the US wireline operation resulting in increased market share and profitability. This will provide a solid base from which to expand our other service lines in this market.

The integration of acquisitions, most notably Geoservices and BecField, was also a focus in 2001. These additions provided technological advances and distribution channels with established operating structures in international markets. The integrated service contract for PEMEX in Mexico has established the segment's presence in that country, which has resulted in additional controlled pressure drilling, well testing, directional drilling, MWD/LWD and drill bit contracts.

These expansion initiatives combined with increased domestic activity levels to generate an 80% increase in revenue to $669.4 million in 2001 compared to 2000. The following chart illustrates the ongoing geographic diversification of the segment's revenue.

REVENUE BY GEOGRAPHIC DISTRIBUTION



Operating earnings increased by 113% to $65.3 million from $30.6 million in 2000. As a percentage of revenue, operating earnings improved slightly from 8% to 10%. The operational and administrative infrastructures necessary to deliver the segment's services internationally are now in place in the US, Latin America, Europe/Africa, Middle East and Asia/Pacific. This includes the equipment and facilities to repair the MWD/LWD tools being produced by the Corporation's research and engineering staff at Advantage Engineering Services, Inc.(AES). Costs for training field personnel and establishing technical support networks have also been incurred to facilitate the rollout of the suite of new tools.

There have been some delays in the development, testing and rollout of the new tools resulting in infrastructure costs being incurred ahead of increased revenue generating capabilities in some regions. Work was delayed, in part, by a flash flood in our Houston research facility shortly after it was completed and put into use.

2000 Compared to 1999

Revenue increased by $246.5 million or 196% in 2000 over 1999. The increase was the combined result of business acquisitions and activity level increases across all services offered by the segment. Operating earnings amounted to $30.6 million or 8% of revenue in 2000. Initiation of international expansion efforts contributed to higher expenses in 2000 with no commensurate revenue contribution.

RENTAL AND PRODUCTION GROUP

(Stated in thousands of dollars)

Years ended December 31,		2001	% of Revenue		2000	% of Revenue		1999	% of Revenue
Revenue	$	271,880		$	239,220		$	178,938	
Expenses:									
Operating		192,915	71.0		170,729	71.4		133,809	74.8
General and administrative		12,353	4.5		11,207	4.7		10,849	6.1
Depreciation and amortization		14,934	5.5		13,995	5.8		14,575	8.1
Operating earnings	$	51,678	19.0	$	43,289	18.1	$	19,705	11.0

	2001	% Increase	2000	% Increase	1999
Equipment rental days (000's)	925	37.9	671	40.4	478
Number of compressor packages sold	56	(17.6)	68	15.3	59
Plant maintenance man-days (000's)	230	15.0	200	–	n/a[1]

(1) not available

2001 Compared to 2000

Revenue in the Rental and Production Group increased by $32.7 million in 2001 or 14% with the majority of the increase coming from the industrial maintenance and plant turnaround operation. This business has seen strong returns from its expansion to service the oil sands projects in northern Alberta and from its focus on providing the full range of services to its customers.

Operating margins improved slightly with increased activity levels. In spite of strong competitive pressures, the gas compression business was able to maintain its revenue and operating margins.

2000 Compared to 1999

Revenue increased by $60.3 million or 34% with all product lines contributing to the increase by relatively the same percentage due to increased activity levels in the western Canadian oilfield. With the exception of natural gas compression packaging, operating margins increased across the segment in conjunction with increased demand for their products and services. The gas compression business experienced strong competitive pressures as a result of over capacity in the Canadian market.

OTHER ITEMS

2001 Compared to 2000

Corporate and Other Expenses

Corporate and other expenses of $30.7 million have increased 19% from $25.7 million in 2000 following the growth of the Corporation. In particular, the continued development of the corporate office in Houston, Texas has facilitated marketing initiatives to support the international expansion. Corporate expenses are primarily personnel related costs, including incentive pay, which is tied to performance. The continued strong financial performance of the Corporation has resulted in increased employee compensation costs.

Total general and administrative costs for the Corporation has been maintained at 8% of revenue. These costs include expenditures required to maintain management information systems used throughout the world. With the activity growth and the international expansion in 2001, we are upgrading the current systems and processes to meet our global requirements. Continued development of information systems for the international operations will be a significant focus in 2002.

Foreign Currency Translation

In accordance with Canadian generally accepted accounting principles (GAAP), unrealized gains and losses related to translation of foreign currency denominated long-term debt are deferred and amortized over the term of the debt.

Effective January 1, 2002 the Corporation will be required to adopt, on a retroactive basis, a new Canadian accounting standard whereby unrealized gains or losses will no longer be deferred and amortized but rather expensed as incurred. If this change had been in effect during 2001, net earnings would have been lower by $1.5 million - $0.03 per share - Diluted (2000 - $1.4 million - $0.03 per share - Diluted, in 1999, net earnings would have been higher by $1.3 million - $0.03 per share - Diluted). The new standard is consistent with US practice.

Interest Expense

Net interest expense increased by $14.9 million or 52% in 2001 over 2000, following the increase in average net borrowings from $455.9 million in 2000 to $637.7 million in 2001. Net borrowings at the year-end dropped to $600.1 million from $675.4 million at year-end 2000. As a percentage of revenue, net interest expense remains at 2%. Interest coverage, defined as operating earnings (see explanation on page 39) divided by net interest expense, remained at nine times interest earned. Management continues to be comfortable with this level of debt servicing cost.

Income Taxes

The Corporation's effective tax rate was 36% of earnings before income taxes and goodwill amortization, compared to 34% in 2000. The increase in the tax rate resulted from the impact on future tax expense of tax rate reductions in 2001 and 2000. In 2001, the Alberta government enacted a 2% reduction in tax rates effective April 1, 2001. In 2000, The Canadian Federal government substantially enacted into law a 7% corporate tax rate reduction over the period 2001 to 2004. Canadian GAAP required that the effect of these rate reductions be reflected as a decrease of future tax expense in the year the law is passed or substantially enacted. The impact of the Alberta tax rate reduction in 2001 was $6.0 million and in 2000 the impact of the Canadian Federal rate reduction was $19.9 million. Excluding the impact of these rate reductions on future tax expense, the Corporation's effective tax rate was 38% in 2001 and 42% in 2000.

Goodwill Amortization

Goodwill amortization increased by $9.0 million partially due to adding $23.9 million in goodwill from the BecField acquisition and also from the full year of amortization on the $268.9 million of goodwill primarily associated with the acquisitions of Plains and CenAlta in 2000.

In 2001, standards under both Canadian and US GAAP were issued that eliminate the amortization of goodwill. These rules will be adopted January 1, 2002 by the Corporation. If goodwill had not been amortized during 2001, net earnings would have been higher by $31.8 million - $0.59 per share - Diluted (2000 - $22.8 million - $0.45 per share - Diluted, 1999 - $15.8 million - $0.35 per share - Diluted).

2000 Compared to 1999

Corporate and Other Expenses

Corporate and other expenses of $25.7 million have increased due to the increase in personnel required to manage the expanded business including the establishment of a corporate office in Houston, Texas. A significant portion of corporate employee compensation is comprised of incentive pay that is tied to corporate performance. The improved financial performance of the Corporation relative to 1999 resulted in increased employee compensation expense. In addition, the Corporation's active acquisition program contributed to the increase in costs in 2000. There tends to be an increase in costs for a period after each acquisition until corporate functions can be rationalized.

In total, general and administrative expense declined slightly as a percentage of revenue to 7.6% in 2000 from 8.0% in 1999.

Interest Expense

Net interest expense increased by $12.2 million or 74% in 2000 over 1999, in conjunction with the increase in net borrowings from $236.4 million to $675.4 million. The cash component of business acquisition costs in 2000 amounted to $365.0 million while debt assumed in these transactions totalled $93.3 million. As a percentage of revenue, net interest expense remained consistent at 2%. Interest coverage increased from seven times interest earned in 1999 to nine times in 2000.

Income Taxes

Tax expense in 2000 is equal to 34% of earnings before income taxes and goodwill amortization, compared to 52% in 1999. Half of this difference is due to the impact of the Canadian federal government's plan to reduce corporate tax rates by 7% over the next four years. Canadian GAAP required that the effect of this rate reduction on the Corporation's future tax balances be reflected as a decrease of future tax expense in 2000, since the rate reductions had been substantively enacted into law. The resultant reduction of tax expense in the fourth quarter of 2000 amounted to $19.9 million. This treatment differed from US GAAP in that this adjustment was not recognized until reduced rates were formally passed into law, which occurred in 2001.

The other primary reason for the reduced effective tax rate in 2000 relates to the Corporation's change in method of accounting for income taxes. Effective January 1, 2000, the Corporation retroactively adopted the liability method of accounting for income taxes without restating prior periods in accordance with revised Canadian accounting standards. The new standard moved Canadian practice in line with US income tax accounting methods.

Goodwill Amortization

Goodwill amortization increased by $6.9 million as a result of adding $268.9 million to goodwill during 2000, primarily from the Plains and CenAlta acquisitions. In addition, a full year of amortization was taken on the $55.5 million of goodwill associated with the Computalog acquisition in July 1999.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations in 2001 were $465.7 million while capital expenditures totaled $371.7 million. The excess was primarily used to repay long-term debt.

At December 31, 2001 the Corporation had working capital of $215.9 million. This amount is net of $80.0 million borrowed under the Corporation's extendable revolving unsecured facility to finance the increase in accounts receivable resulting from the increase in activity.

Maintaining a strong balance sheet has continued to remain a focus of management throughout the year. At year-end the Corporation had long-term debt of $496.2 million and its debt to debt plus equity ratio remains conservative at 0.26. The Corporation has not undertaken hedging activities using derivative instruments.

Strong adherence to conservative financial philosophies has put the Corporation in good stead with current lenders and the public debt markets. The Corporation believes that its strong balance sheet and unutilized borrowing capacity, combined with funds generated from operations, will provide sufficient capital to fund its ongoing operations and future expansion.

ACCOUNTING STANDARD CHANGES

In 2002, the Corporation will be required to adopt a new Canadian accounting standard relating to stock based compensation and other stock based payments to non-employees. All prior grants have been to employees and the Corporation does not expect the adoption of the new standard to have a material impact on the Corporation's financial condition or results of operations. The new standard is to be applied prospectively for stock based payments to non-employees and to employee awards that are direct awards of stock. For future such awards, the Corporation will be required to follow the fair value method, as prescribed in the standard and calculate a fair value of the stock granted and record that fair value as an expense over the term of the grant.

In 2002, the Corporation will also be required to adopt new accounting standards for business combinations and goodwill and other intangible assets. Under the new standard for business combinations, the Corporation will be required to use the purchase method to account for all business combinations initiated after July 1, 2001 and identify, separate from goodwill, other intangible assets that arise from contractual or legal rights or that can be separately sold. The new accounting standard substantially conforms with the accounting policies followed by the Corporation for all prior business combinations.

Under the new standard of accounting for goodwill, goodwill is no longer amortized, but is tested for impairment at least annually. Under the goodwill test, if the fair value of a reporting unit does not exceed its carrying value, the excess of fair value of net assets over the fair value of a reporting unit is considered to be the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied value, the difference is recognized as an impairment loss. The Corporation is required to assess the potential impairment of goodwill within six months of the January 1, 2002 adoption date, including an identification of business units at which goodwill will be tested. Should that assessment result in an impairment of goodwill, the amount will be charged to retained earnings at January 1, 2002.

BUSINESS RISKS

Crude Oil and Natural Gas Prices

The price received by our customers for the crude oil and natural gas they produce has a direct impact on cash flow available for them to finance the acquisition of services provided by the Corporation.

Prices for crude oil are established in a worldwide market in which supply and demand are subject to a vast array of economic and political influences. This results in very volatile pricing; a prime example of which is West Texas Intermediate crude oil trading at US $12 per barrel in late 1998 and in excess of US $40 per barrel at one point in 2000. Natural gas prices are established in a more "local" North American market due to the requirement to transport this gaseous product in pressurized pipelines. Demand for natural gas is seasonal and is correlated to heating and electricity generation requirements.

The Corporation manages the risk of volatile commodity prices, and thus volatile demand for its services, by striving to maintain efficient cost structures that are scalable to activity levels. However, cost structures in CDG are more variable in nature than those within TSG. In addition, our strong balance sheet and adherence to conservative financing practices provide the resilience to withstand and benefit from downturns and upturns in the business cycle.

Workforce Availability

The Corporation's ability to provide reliable services is dependent upon the availability of well trained, experienced crews to operate our field equipment. We must also balance the requirement to maintain a skilled workforce with the need to establish cost structures that vary with activity levels.

Within CDG, our most experienced people are retained during periods of low utilization by having them fill lower level positions on our field crews. The Corporation has established training programs for employees new to the oilfield service sector and we work closely with industry associations to ensure competitive compensation levels and to attract new workers to the industry as required.

Weather

The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Corporation's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen hard enough to support equipment. The timing of freeze up and spring breakup affects the ability to move equipment in and out of these areas.

Working with customers, we strive to position equipment where possible such that it can be working on location during spring breakup, limiting the need to move equipment during this time period as much as possible. However, many uncontrollable factors affect our ability to plan in this fashion and the spring season, which can occur any time from late March through May, is traditionally our slowest time.

Technology

Technological innovation by oilfield service companies has improved the profitability of the entire exploration and production sector over the industry's 140-year history. Recently, development of directional and horizontal drilling, controlled pressure drilling, coiled tubing drilling, and methods of providing real time data during drilling and production operations have increased production volumes and the recoverable amount of discovered reserves. Innovations such as 3-D and 4-D seismic have improved the success rate of exploration wells partially offsetting the decline in the quantity of drillable prospects.

Our ability to deliver more efficient services is critical to our continued success. The Corporation has continuously built upon its experience and teamed with customers to provide solutions to their unique problems. Our ability to design and build specialized equipment has kept us on the leading edge of technology. The success of our in-house designed and built Super Single™ rig, both in Canada and abroad, is testimony of our dedication to these efforts.

The continued development of our TSG segment, and in particular the research and development work of AES, puts the Corporation at another level where high-end technological innovation is paramount to success. The team of highly qualified experienced professionals, that has been assembled and working together for almost two years in a state of the art testing facility, is equal to any in the industry. While we have confidence in the proven track record of the AES team, there is no assurance as yet of the commercial viability of the technology being developed.

Acquisition Integration

The Corporation has worked towards its strategic objective of becoming an integrated service provider of sufficient size to benefit from economies of scale and to provide the foundation from which to pursue international opportunities. Business acquisitions have been an important tool in this pursuit and will continue to be so in the future. Continued successful integration of new businesses, people and systems is key to our future success.

Foreign Operations

The Corporation is working hard to export its expertise and technologies to oil and gas producing regions around the world. With this comes the risk of dealing with business and political systems that are much different than we are accustomed to in North America. The Corporation has hired employees who have experience working in the international arena and it is committed to recruiting resident nationals on the staffs of all of its international operations.

Foreign Currency Exchange Rates

The Corporation has two sources of foreign currency exchange risk. On international contracts, attempts are made to structure revenue streams such that a portion sufficient to match local expenditures is denominated in the local currency, with the remainder being denominated in US dollars. In addition, many of our business units buy a portion of their parts and supplies from suppliers in the US. As a result, the Corporation is a net payer of US dollars but at present this exposure is not expected to be significant.

Merger and Acquisition Activity

Recent merger and acquisition activity in the oil and gas exploration and production sector continues to impact demand for our services as customers focus on reorganization activities prior to committing funds to significant drilling and maintenance projects. Continued merger and acquisition activity could have a short-term impact on our business, but in the long-term should result in a stronger, more active market.

OUTLOOK

Management recognizes that the short to medium term will present challenges in managing our businesses through the trough of another cycle. Activity levels in North America may be down by as much as 30% relative to 2001 and we are taking the necessary steps to manage our costs in this environment. The management team has experienced many ups and downs in our very cyclical industry and is prepared to deal with this one.

Longer term, management is optimistic about the future based upon the fundamentals of the oil and natural gas exploration and production industry and upon our initiatives to capitalize on them.

World economies were on the decline in the latter half of 2001 with September 11 serving to exacerbate the decline. The resulting reduced demand for energy increased inventory levels leading to reduced commodity prices and lower cash flow for our customers. However, both the US and the Canadian economies are beginning to show signs of recovery, which bodes well for the rest of the world and our industry.

The events of September 11 highlighted the importance of security of energy sources to the US and its North American trading partners. Canada's reserves of natural gas and oil sands will play an important role in meeting these energy needs and Precision is the leader in providing oilfield services in this market. The Corporation's expanded presence in the US and Mexico will also generate benefits from this focus.

Internationally, crude oil remains the focus of exploration and production efforts and activity in this arena is forecasted to increase slightly from 2001 levels. The establishment of our international operations in US, Latin America, Europe/Africa, Middle East and Asia/Pacific are expected to enable the Corporation to participate in the strengthening market. As we have demonstrated in Mexico, our ability to deliver a package of integrated services will be an important factor in competing in the international market place.

Finally, although delayed, it is anticipated that the Corporation's significant research and engineering efforts will result in the 2002 release of a revolutionary new generation of LWD tools designed and expected to exceed current industry standards for temperature, pressure and flow rate performance as well as system reliability. These tools should enable the Corporation to effectively compete in an environment where our customers' exploration and production programs are taking them into increasingly technically challenging geological formations.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles (GAAP) appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon the Corporation's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the twelve months ended December 31, 2001 to December 31, 2000 and the twelve months ended December 31, 2000 to December 31,1999. Note 13 to the consolidated financial statements describes the impact on the consolidated financial statements of significant differences between Canadian and United States GAAP.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

KPMG LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Corporation's most recent annual general and special meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The Audit Committee of the Board of Directors, which is comprised of three directors who are not employees of the Corporation, has discussed the consolidated financial statements, including the notes thereto, with management and external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

HANK B. SWARTOUT

Chairman of the Board, President and Chief Executive Officer

DALE E. TREMBLAY

Senior Vice President Finance and Chief Financial Officer

February 13, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Precision Drilling Corporation as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flow for each of the years in the three year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flow for each of the years in the three year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS

Calgary, Canada

February 13, 2002

CONSOLIDATED BALANCE SHEETS

(Stated in thousands of dollars)

As at December 31,		2001	2000
ASSETS			
Current assets:			
Cash		$ 13,231	$ 20,702
Accounts receivable		474,528	424,817
Income taxes recoverable		–	2,050
Inventory	*(Note 2)*	111,393	85,688
		599,152	533,257
Property, plant and equipment, net of accumulated depreciation	*(Note 3)*	1,418,609	1,212,045
Intangibles, net of accumulated amortization of $9,413 (2000 - $1,857)		74,004	75,887
Goodwill, net of accumulated amortization of $92,623 (2000 - $60,838)		545,377	550,502
Other assets	*(Note 4)*	17,171	16,445
		$ 2,654,313	$ 2,388,136
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank indebtedness		$ 85,384	$ 112,620
Accounts payable and accrued liabilities	*(Note 16)*	253,342	227,548
Income taxes payable		12,764	–
Current portion of long-term debt	*(Note 5)*	31,743	35,353
		383,233	375,521
Long-term debt	*(Note 5)*	496,200	548,096
Future income taxes	*(Note 9)*	356,408	257,624
Non-controlling interest		868	–
Shareholders' equity:			
Share capital	*(Note 6)*	887,160	864,495
Retained earnings		530,444	342,400
		1,417,604	1,206,895
Commitments and contingencies	*(Notes 8 and 17)*		
		$ 2,654,313	$ 2,388,136

See accompanying notes to consolidated financial statements

Approved by the Board:

H.B. Swartout

HANK B. SWARTOUT

Director

Garth Wiggins

H. GARTH WIGGINS

Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(Stated in thousands of dollars except per share amounts)

Years ended December 31,		2001	2000	1999
Revenue		$ 1,953,563	$ 1,355,453	$ 734,740
Expenses:				
Operating		1,238,128	870,172	487,960
General and administrative		153,498	102,848	58,429
Depreciation and amortization		145,120	101,300	67,228
Research and engineering		32,440	20,288	3,629
		1,569,186	1,094,608	617,246
Operating earnings		384,377	260,845	117,494
Interest:				
Long-term debt		44,112	31,166	19,634
Other		556	473	481
Income		(1,086)	(2,926)	(3,571)
Dividend income		(1,106)	–	(1,443)
Gain on disposal of investments and subsidiary		(1,805)	(40)	(24,875)
Reduction of carrying amount of investments		–	–	13,101
Reduction of carrying amount of property, plant and equipment		–	–	10,200
Earnings before income taxes, goodwill amortization and non-controlling interest		343,706	232,172	103,967
Income taxes:	*(Note 9)*			
Current		25,753	36,252	69,299
Future		97,256	41,599	–
Deferred (reduction)		–	–	(15,413)
		123,009	77,851	53,886
Earnings before goodwill amortization and non-controlling interest		220,697	154,321	50,081
Goodwill amortization, net of tax		31,785	22,761	15,831
Earnings before non-controlling interest		188,912	131,560	34,250
Non-controlling interest		868	–	–
Net earnings		188,044	131,560	34,250
Retained earnings, beginning of year		342,400	280,872	246,622
Adjustment on adoption of liability method of accounting for income taxes		–	(70,032)	–
Retained earnings, end of year		$ 530,444	$ 342,400	$ 280,872
Earnings per share before goodwill amortization:	*(Note 10)*			
Basic		$ 4.15	$ 3.17	$ 1.13
Diluted		$ 4.06	$ 3.06	$ 1.11
Earnings per share:	*(Note 10)*			
Basic		$ 3.55	$ 2.70	$ 0.77
Diluted		$ 3.47	$ 2.61	$ 0.76

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW

(Stated in thousands of dollars except per share amounts)

Years ended December 31,		2001	2000	1999
Cash provided by (used in):				
Operations:				
Net earnings		$ 188,044	$ 131,560	$ 34,250
Items not affecting cash:				
Depreciation and amortization		145,120	101,300	67,228
Goodwill amortization		31,785	22,761	15,831
Future income taxes		97,256	41,599	–
Deferred income taxes		–	–	(15,413)
Gain on disposal of investments and subsidiary		(1,805)	(40)	(24,875)
Amortization of deferred financing costs		1,302	1,435	1,157
Amortization of deferred foreign exchange loss (gain)		3,103	(742)	–
Non-controlling interest		868	–	–
Reduction of carrying amount of investments		–	–	13,101
Reduction of carrying amount of property, plant and equipment		–	–	10,200
Funds provided by operations		465,673	297,873	101,479
Changes in non-cash working capital balances	*(Note 16)*	(33,443)	(60,988)	(62,219)
		432,230	236,885	39,260
Investments:				
Business acquisitions, net of cash acquired	*(Note 12)*	(35,557)	(364,959)	2,250
Purchase of property, plant and equipment		(366,019)	(195,377)	(55,751)
Purchase of intangibles		(5,673)	(5,627)	(366)
Proceeds on sale of property, plant and equipment		31,001	20,520	14,969
Proceeds on disposal of investments and subsidiary		2,283	64	121,486
Investments		227	95	(3,125)
		(373,738)	(545,284)	79,463
Financing:				
Increase in long-term debt		22,083	321,543	109,688
Repayment of long-term debt		(83,437)	(118,219)	(187,860)
Deferred financing costs on long-term debt		(38)	(1,973)	–
Issuance of common shares on exercise of options		20,294	21,009	11,558
Issuance of common shares on exercise of warrants		2,371	–	–
Redemption of warrants		–	(18,924)	–
Change in bank indebtedness		(27,236)	73,340	(260)
		(65,963)	276,776	(66,874)
Increase (decrease) in cash		(7,471)	(31,623)	51,849
Cash, beginning of year		20,702	52,325	476
Cash, end of year		$ 13,231	$ 20,702	$ 52,325
Funds provided by operations per share:	*(Note 10)*			
Basic		$ 8.79	$ 6.11	$ 2.28
Diluted		$ 8.59	$ 5.91	$ 2.24

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts stated in thousands of dollars except per share amounts)

Precision Drilling Corporation (the Corporation) is a vertically integrated oilfield service company, providing oilfield and industrial services to customers worldwide.

The financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in Canada. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

1 Significant Accounting Policies:

(a) ***Principles of consolidation:***

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which except one, are wholly-owned.

(b) ***Inventory:***

Inventory is carried at the lower of average cost and replacement value.

(c) ***Property, plant and equipment:***

Drilling rig equipment is depreciated by the unit-of-production method based on 3,650 drilling days with a 20% salvage value. Drill pipe and drill collars are depreciated over 1,100 drilling days and have no salvage value. Service rig equipment is depreciated by the unit-of-production method based on 24,000 hours for single and double rigs and 48,000 hours for heavy double rigs. Service rigs have a 20% salvage value.

Field technical equipment is depreciated by the straight-line method over periods ranging from 2 to 10 years.

Rental equipment is depreciated by the straight-line method over periods ranging from 10 to 15 years. Other equipment is depreciated by the straight-line method over periods ranging from 3 to 10 years.

Light duty vehicles are depreciated by the straight-line method over 4 years. Heavy-duty vehicles are depreciated by the straight-line method over periods ranging from 7 to 10 years.

Buildings are depreciated by the straight-line method over periods ranging from 10 to 30 years.

(d) ***Intangibles:***

Intangibles, which are comprised of acquired patents, are recorded at cost and amortized by the straight-line method over their useful lives ranging from 5 to 15 years.

(e) ***Goodwill:***

Goodwill is recorded at cost and amortized by the straight-line method over 20 years. The recoverability of goodwill is assessed, if indications of impairment are present, based on estimated undiscounted future cash flows.

(f) *Investments:*

Investments in shares of associated companies, over which the Corporation has significant influence, are accounted for by the equity method. Other investments are carried at cost. If there are other than temporary declines in value, these investments are written down to their net realizable value.

(g) *Deferred financing costs:*

Costs associated with the issuance of long-term debt are deferred and amortized by the straight-line method over the term of the debt. The amortization is included in interest expense.

(h) *Income taxes:*

Effective January 1, 2000, the Corporation adopted the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Corporation's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

Prior to adoption of this new accounting standard, income tax expense was determined using the deferral method. Under this method, deferred income tax expense was determined based on "timing differences" (differences between the accounting and tax treatment of expense or income items), and were measured using the tax rates in effect in the year the differences originated.

The Corporation adopted the new income tax accounting standard retroactively, without restating the financial statements of any prior period. As a result, the Corporation recorded an adjustment to retained earnings and future tax liability, formerly the deferred tax liability, in the amount of $70.0 million as at January 1, 2000.

(i) *Revenue recognition:*

Revenue is primarily recognized as services are rendered based upon agreed daily, hourly or job rates. The Corporation's manufacturing activities relate to equipment sale contracts which follow the percentage of completion method of revenue recognition.

(j) *Post-employment benefits:*

The Corporation entered into an employment agreement with a senior officer, which provides for certain post-employment benefits. Costs of these benefits are charged to earnings on a straight-line basis over ten years.

(k) *Foreign currency translation:*

Accounts of foreign operations, all of which are considered financially and operationally integrated, are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are translated at the year end current exchange rate and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net earnings.

Transactions in foreign currencies are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at current rates. Gains and losses are included in income except gains and losses related to foreign currency denominated long-term debt, which are deferred and amortized over the term of the debt.

(l) *Stock-based compensation plans:*

The Corporation has equity incentive plans, which are described in Note 6. No compensation expense is recognized for these plans when stock options are issued. Any consideration received on exercise of the stock options is credited to share capital.

(m) *Research and engineering:*

Research and engineering costs are charged to income as incurred. Costs associated with the development of new operating tools and systems are expensed during the period unless the recovery of these costs can be reasonably assured given the existing and anticipated future industry conditions. Upon successful completion and field testing of the tools any deferred costs are transferred to the related capital asset accounts.

(n) *Per share amounts:*

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(o) *Comparative figures:*

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

2 INVENTORY:

	2001	2000
Finished goods and work in progress	$ 55,118	$ 52,600
Operating supplies	30,020	16,123
Manufacturing parts and materials	26,255	16,965
	$ 111,393	$ 85,688

3 PROPERTY, PLANT AND EQUIPMENT:

	Cost	Accumulated Depreciation	Net Book Value
2001			
Rig equipment	$ 1,022,281	$ 215,862	$ 806,419
Field technical equipment	365,858	31,669	334,189
Rental equipment	96,509	28,211	68,298
Other equipment	167,292	71,243	96,049
Vehicles	72,276	15,413	56,863
Buildings	52,734	10,622	42,112
Land	14,679	–	14,679
	$ 1,791,629	$ 373,020	$1,418,609
2000			
Rig equipment	$ 848,476	$ 163,244	$ 685,232
Field technical equipment	306,552	20,384	286,168
Rental equipment	86,656	23,321	63,335
Other equipment	112,690	41,335	71,355
Vehicles	67,968	13,608	54,360
Buildings	44,935	7,766	37,169
Land	14,426	–	14,426
	$ 1,481,703	$ 269,658	$1,212,045

Effective January 1, 2001, the Corporation changed its estimated salvage value on drilling and service rigs from nil to 20%. The impact of this change in estimate resulted in a reduction of related depreciation expense in the year ended December 31, 2001 by $10.5 million and an increase in net earnings after income taxes of $6.1 million ($0.11 per share - Diluted).

4 Other Assets:

	2001	2000
Investments, at cost less provision for impairment	$ 4,280	$ 4,125
Investments, at equity	2,273	3,183
Deferred financing costs, net of accumulated amortization	7,663	8,927
Deferred foreign exchange loss, net of accumulated amortization	2,955	210
	$ 17,171	$ 16,445

5 Long-Term Debt:

	2001	2000
Unsecured debentures – Series 1	$ 200,000	$ 200,000
Unsecured debentures – Series 2	150,000	150,000
EDC facility (US $13,194)	21,025	27,712
EDC facility (US $40,000)	63,740	75,010
Extendable revolving unsecured facility	79,781	94,468
Equipment loans	11,114	30,760
Capital lease obligations	2,283	5,499
	527,943	583,449
Less amounts due within one year	31,743	35,353
	$ 496,200	$ 548,096

The $200.0 million 6.85% Series 1 unsecured debentures mature June 26, 2007 and have an effective interest rate of 7.44% after taking into account deferred financing costs. The debentures are redeemable at any time at the option of the Corporation upon payment of a redemption price equal to the greater of an amount calculated with reference to the yield on a Government of Canada bond with the same maturity, and par.

The $150.0 million 7.65% Series 2 unsecured debentures mature October 27, 2010 and have an effective interest rate of 7.71% after taking into account deferred financing costs. The debentures are redeemable at any time at the option of the Corporation upon payment of a redemption price equal to the greater of an amount calculated with reference to the yield on a Government of Canada bond with the same maturity, and par.

The $21.0 million unsecured term financing facility with Export Development Canada (EDC) is repayable in semi-annual installments, matures on January 20, 2004 and bears interest at six-month US Libor plus applicable margin. The margin is dependent upon the Corporation's credit rating, which at December 31, 2001 resulted in a margin of 0.8%.

The $63.7 million unsecured term financing facility with EDC is repayable over five years in semi-annual installments, matures September 15, 2005 and bears interest at six-month US Libor plus applicable margin. The margin is dependent upon the Corporation's credit rating, which at December 31, 2001 results in a margin of 0.9%.

The Corporation has an extendable revolving unsecured facility of $300.0 million (or US equivalent) with a syndicate led by a Canadian chartered bank. Advances under the facility bear interest at the bank's prime lending rate, US base rate, US Libor plus applicable margin or Bankers' Acceptance plus applicable margin. The applicable margin is dependent on the Corporation's credit rating, which at December 31, 2001 resulted in a margin of 0.75%. The facility is extendable annually at the option of the lenders. Should this facility not be extended, outstanding amounts will be transferred to a two-year term facility repayable in equal quarterly installments. As at December 31, 2001 the Corporation had drawn $159.8 million under this facility, $80.0 million of which has been included in bank indebtedness as the funds were used to finance working capital.

Equipment loans of $11.1 million bear interest at rates between 7.5% and 9.6% and are repayable in monthly installments. These loans are secured by specific well servicing equipment.

Principal repayments over the next five years are as follows:

2002	$ 31,743
2003	28,426
2004	21,311
2005	16,153
2006	42

6 Share Capital:

(a) *Authorized:*

- unlimited number of non-voting cumulative convertible redeemable preferred shares without nominal or par value
- unlimited number of common shares without nominal or par value

(b) *Issued:*

	Issued	
Common Shares:	Number	Amount
Balance, December 31, 1998	42,078,518	$ 504,541
Issued on acquisition of Computalog	4,031,441	106,107
Issued on acquisition of Underbalanced	217,158	5,716
Options exercised	835,902	11,559
Balance, December 31, 1999	47,163,019	$ 627,923
Issued on acquisition of Plains	113,882	6,555
Issued on acquisition of CenAlta	4,025,743	202,535
Issued on acquisition of AQRIT assets	48,000	2,500
Options exercised	932,409	21,009
	52,283,053	$ 860,522
Warrants issued on acquisition of Plains		22,897
Warrants repurchased by the Corporation		(18,924)
Balance, December 31, 2000	52,283,053	$ 864,495
Options exercised	855,935	20,294
Warrants exercised	37,050	2,371
Balance, December 31, 2001	53,176,038	$ 887,160

(c) *Warrants:*

Each of the 351,604 warrants outstanding at December 31, 2000 entitled the holder thereof to acquire one common share at an exercise price of $64.00. Holders of 37,050 warrants exercised their right to acquire common shares during the year. The remainder of the warrants expired on December 31, 2001.

(d) *Equity Incentive Plans:*

The Corporation has equity incentive plans under which a combined total of 5,236,351 options to purchase common shares are reserved to be granted to employees and directors. Of the amount reserved, 4,406,281 options have been granted. Under these plans, the exercise price of each option equals the fair market value of the Corporation's common shares on the date of the grant and an option's maximum term is 10 years. Options vest over a period from 1 to 4 years from the date of grant as employees or directors render continuous service to the Corporation.

A summary of the status of the equity incentive plans as at December 31, 1999, 2000 and 2001, and changes during the periods then ended is presented below:

	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price	Options Exercisable
Outstanding at December 31, 1998	3,370,600	$ 6.50 – 44.38	$ 15.89	772,000
Granted	1,718,540	13.50 – 33.60	28.12	
Exercised	(835,902)	6.50 – 34.50	13.87	
Cancelled or expired	(313,400)	7.00 – 34.50	24.21	
Outstanding at December 31, 1999	3,939,838	$ 13.50 – 44.38	$ 25.57	827,097
Granted	1,615,474	25.50 – 54.20	39.51	
Exercised	(932,409)	13.50 – 34.50	22.53	
Cancelled or expired	(148,800)	16.30 – 40.25	28.55	
Outstanding at December 31, 2000	4,474,103	$ 13.50 – 54.20	$ 31.18	946,087
Granted	1,055,350	31.05 – 65.90	44.03	
Exercised	(855,935)	13.50 – 44.38	23.71	
Cancelled or expired	(267,237)	25.50 – 52.39	38.63	
Outstanding at December 31, 2001	4,406,281	$ 13.50 – 65.90	$ 35.21	1,217,428

The range of exercise prices for options outstanding at December 31, 2001 are as follows:

	Total Options Outstanding			Exercisable Options	
Range of Exercise Prices:	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number	Weighted Average Exercise Price
$ 13.50 - 19.99	392,543	$ 14.46	2.24	83,593	$ 15.11
20.00 - 29.99	544,448	25.66	1.13	420,835	25.36
30.00 - 39.99	1,978,940	34.35	2.96	554,350	34.33
40.00 - 49.99	1,063,950	41.59	4.38	133,975	41.59
50.00 - 59.99	393,900	53.63	5.38	24,675	52.98
60.00 - 65.90	32,500	65.84	4.53	–	–
$ 13.50 - 65.90	4,406,281	$ 35.21	3.24	1,217,428	$ 31.09

7 Employee Retirement Plan:

The Corporation has a defined contribution retirement plan covering a significant number of its employees. The Corporation matches individual member contributions up to 5% of the member's base earnings. Employer matching contributions under the plan totalled $6.3 million for the year ended December 31, 2001 (year ended December 31, 2000 - $4.3 million, year ended December 31, 1999 – $3.0 million).

8 Commitments:

The Corporation has commitments for operating lease agreements, primarily for vehicles and office space, in the aggregate amount of $124.6 million. Payments over the next five years are as follows:

2002	$ 32,055
2003	26,062
2004	18,535
2005	13,327
2006	10,217

Rent expense included in the statements of earnings for the years ended December 31 is as follows:

2001	$ 16,923
2000	12,064
1999	5,322

9 Income Taxes:

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	2001	2000	1999
Earnings before income taxes and non-controlling interest	$ 311,921	$ 209,411	$ 88,136
Income tax rate	42%	45%	45%
Expected income tax provision	131,007	94,235	39,661
Add (deduct):			
Non-deductible expenses	4,259	1,458	1,313
Utilization of prior period losses	–	(1,828)	(1,657)
Non-deductible amortization	13,096	10,106	10,146
Income taxed in jurisdictions with lower tax rates	(18,102)	(5,869)	–
Reduction of carrying amounts of investments	–	–	4,926
Other	(1,287)	(317)	(503)
	128,973	97,785	53,886
Reduction of future tax balances due to substantively enacted tax rate reductions	(5,964)	(19,934)	–
	$ 123,009	$ 77,851	$ 53,886

During 2001, the Province of Alberta enacted a 2% reduction in tax rates, which has been reflected as a reduction in future tax expense in 2001. In addition, during 2000, the Federal Government of Canada introduced tax rate reductions to be implemented over the period from 2001 to 2004. The effect of the 7% tax rate reduction, from 29% to 22%, on the Corporation's future tax balances was reflected as a reduction of future tax expense in 2000.

The Corporation's operations are complex and the computation of the provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. There are tax matters that have not yet been confirmed by taxation authorities, however, management believes that the provision for income taxes is adequate.

The net future tax liability is comprised of the tax effect of the following temporary differences:

	2001	2000
Liabilities:		
Property, plant and equipment and intangibles	$ 269,360	$ 220,364
Assets held in partnership with different tax year	122,124	67,332
Deferred financing costs	2,805	3,358
	394,289	291,054
Assets:		
Losses carried forward	33,449	30,528
Accrued liabilities	4,432	2,902
	37,881	33,430
	$ 356,408	$ 257,624

The Corporation has available losses of $128.4 million of which the benefit of $87.2 million has been recognized. These losses expire from time to time up to 2008.

10 Per Share Amounts:

Per share amounts have been calculated on the weighted average number of common shares outstanding. The weighted average shares outstanding for the year ended December 31, 2001 was 52,952,879 (year ended December 31, 2000 – 48,722,141; year ended December 31, 1999 – 44,499,837).

Effective January 1, 2001, the Corporation adopted the treasury stock method of calculating diluted earnings per share as recommended by the Canadian Institute of Chartered Accountants. The treasury stock method assumes that any proceeds obtained upon the exercise of options would be used to purchase common shares at the average market price during the period. The diluted shares outstanding for the year ended December 31, 2001 was 54,198,348 (year ended December 31, 2000 – 50,431,349; year ended December 31, 1999 – 45,276,180). Comparative per share - diluted amounts have been restated to reflect this change.

11 Significant Customers:

During the years ended December 31, 2001, 2000 and 1999, no one customer accounted for more than 10% of the Corporation's revenue.

12 Business Acquisitions:

During the year ended December 31, 2001, the Corporation completed business acquisitions, the most significant of which was the acquisition of all the issued and outstanding shares of BecField Drilling Services Ltd. (BecField) in January 2001. BecField provides directional drilling and measurement-while-drilling services through its technical field and support personnel to the onshore and offshore oil and gas industry. It has established operations in Europe and the Middle East.

The acquisitions have been accounted for by the purchase method with results of operations of the acquired businesses included in the financial statements from the effective dates of acquisition. The details of the acquisitions are as follows:

	BecField	Other	Total
Net assets acquired at assigned values:			
Working capital	$ 2,446[a]	$ 1,136[b]	$ 3,582
Property, plant and equipment	5,036	4,074	9,110
Goodwill	23,877	2,783	26,660
Future income taxes	–	(800)	(800)
	$ 31,359	$ 7,193	$ 38,552
Consideration:			
Cash	$ 31,359	$ 7,193	$ 38,552

(a) Includes cash of $1,880
(b) Includes cash of $1,115

During the year ended December 31, 2000, the Corporation completed business acquisitions, the most significant of which were:

- Acquisition of all the issued and outstanding shares of Plains Energy Services Ltd. (Plains) in July 2000. Plains provides wireline, surface control systems, well servicing and contract drilling services to the oil and gas industry and engineers, manufactures, sells and operates specialty products, tools and equipment.
- Acquisition of all the issued and outstanding shares of CenAlta Energy Services Inc. (CenAlta) in October 2000. CenAlta provides equipment and crews for the servicing and drilling of oil and natural gas wells in western Canada.
- Acquisition of the global directional drilling and electromagnetic measurement-while-drilling business and associated assets from Geoservices S.A. (Geoservices) in October 2000.

The acquisitions have been accounted for by the purchase method with results of operations of the acquired businesses included in the financial statements from the effective dates of acquisition. The details of the acquisitions are as follows:

	Plains	CenAlta	Geoservices	Other	Total
Net assets acquired at assigned values:					
Working capital	$ 11,178	$ (2,240)	$ 6,717	$ 18	$ 15,673
Property, plant and equipment	122,207	219,411	20,879	13,793	376,290
Intangibles	2,640	–	64,621	3,608	70,869
Goodwill	188,540	72,351	–	7,972	268,863
Other assets	28	–	–	–	28
Long-term debt	(42,535)	(50,725)	–	–	(93,260)
Future income taxes	(4,755)	(34,262)	–	–	(39,017)
	$ 277,303	$ 204,535	$ 92,217	$ 25,391	$ 599,446
Consideration:					
Common shares	$ 6,555	$ 202,535	$ –	$ 2,500	$ 211,590
Warrants	22,897	–	–	–	22,897
Cash	247,851	2,000	92,217	22,891	364,959
	$ 277,303	$ 204,535	$ 92,217	$ 25,391	$ 599,446

The following proforma information provides an indication of what the Corporation's results of operations would have been had Plains and CenAlta been acquired effective January 1, 2000:

	2000
Revenues	$ 1,546,431
Earnings before goodwill amortization	129,692
Net earnings	99,304
Earnings per share before goodwill amortization:	
Basic	2.50
Diluted	2.41
Earnings per share:	
Basic	1.91
Diluted	1.85

During the year ended December 31, 1999 the Corporation completed several acquisitions, the most significant of which were:

- Acquisition of all the issued and outstanding shares of Computalog Ltd. (Computalog) in July 1999. Computalog provides electric wireline logging services and directional drilling services to the oil and gas industry and manufactures and sells specialty products, tools and equipment.
- Acquisition of all the issued and outstanding shares of Underbalanced Drilling Systems Ltd. (Underbalanced) in July 1999. Underbalanced provides a service gas for use in underbalanced drilling applications.

The acquisitions have been accounted for by the purchase method with results of operations of the acquired entities included in the financial statements from the effective dates of acquisition. The details of the acquisitions are as follows:

	Computalog	Underbalanced	Other	Total
Net assets acquired at assigned values:				
Working capital	$ 49,798 [(a)]	$ (303) [(b)]	$ (3)	$ 49,492
Property, plant and equipment	82,112	6,813	10,716	99,641
Intangibles	516	336	–	852
Investments	3,204	–	–	3,204
Deferred financing costs	321	–	–	321
Goodwill	55,518	–	655	56,173
Long-term debt	(52,165)	(911)	(7,279)	(60,355)
Deferred income taxes	(5,663)	–	(2)	(5,665)
	$ 133,641	$ 5,935	$ 4,087	$ 143,663
Consideration:				
Common Shares	$ 106,107	$ 5,716	$ –	$ 111,823
Carrying amount of Computalog shares acquired prior to April 30, 1999	23,070	–	–	23,070
Carrying amount of investment prior to January 1, 1999	–	–	1,528	1,528
Cash	4,464	219	2,559	7,242
	$ 133,641	$ 5,935	$ 4,087	$ 143,663

(a) *Includes cash of $9,392*

(b) *Includes cash of $100*

13 United States Generally Accepted Accounting Principles:

These financial statements have been prepared in accordance with Canadian GAAP which, in the case of the Corporation conform with United States GAAP in all material respects, except as follows:

(a) *Income taxes:*

In 2000 the Corporation adopted the liability method as described in Note 1 without restatement of prior years. As a result, the Corporation recorded an adjustment to retained earnings and future tax liability in the amount of $70.0 million at January 1, 2000. US GAAP required the use of the liability method prescribed in the Statement of Financial Accounting Standards (SFAS) No. 109, which substantially conforms with the Canadian GAAP accounting standard adopted in 2000. Application of US GAAP in years prior to 2000 would have resulted in $70.0 million of additional goodwill being recognized at January 1, 2000 as opposed to an implementation adjustment to retained earnings allowed under Canadian GAAP. In 2000 and 2001 the US GAAP financial statements would reflect an increase in goodwill of $66.5 and $63.0 million, respectively, and a corresponding increase in retained earnings. An additional charge to earnings of $3.5 million would be required related to this goodwill in each of 2000 and 2001.

Under Canadian GAAP, future tax liabilities and assets are calculated by reference to current tax legislation and proposed legislation that is considered substantively enacted but not yet enacted into law. US GAAP requires that only enacted income tax legislation be used for calculation of future tax amounts. In 2000 the Federal Government of Canada introduced tax rate reductions that were substantively enacted at December 31, 2000 but that were not passed into legislation until 2001. The resulting reduction of future tax balances recognized under Canadian GAAP in 2000 would not be recognized under US GAAP until 2001.

(b) *Translation of foreign currency denominated debt:*

Under Canadian GAAP, gains and losses on translation of foreign currency denominated debt are deferred and amortized over the debt term. US GAAP requires that such gains and losses be included in the determination of income. Effective January 1, 2002, Canadian GAAP has changed to conform to US GAAP with respect to the treatment of gains and losses on translation of foreign currency denominated debt.

The application of US accounting principles would have the following impact on the consolidated financial statements:

Consolidated Statements of Earnings

Years ended December 31,	**2001**	2000	1999
Net earnings under Canadian GAAP	$ **188,044**	$ 131,560	$ 34,250
Adjustments under US GAAP:			
Goodwill amortization	**(3,502)**	(3,502)	–
Income tax rate	**19,934**	(19,934)	–
Foreign currency translation	**(1,563)**	(210)	2,421
Net income and comprehensive income under US GAAP	$ **202,913**	$ 107,914	$ 36,671
Earnings per share under US GAAP:			
Basic	$ **3.83**	$ 2.22	$ 0.80
Diluted	$ **3.74**	$ 2.14	$ 0.79

Balance Sheets

	December 31, 2001		December 31, 2000	
	As reported	US GAAP	As reported	US GAAP
Current assets	$ 599,152	$ 599,152	$ 533,257	$ 533,257
Property, plant and equipment	1,418,609	1,418,609	1,212,045	1,212,045
Intangibles	74,004	74,004	75,887	75,887
Goodwill	545,377	608,406	550,502	617,032
Other assets	17,171	14,216	16,445	16,235
	$ 2,654,313	$ 2,714,387	$ 2,388,136	$ 2,454,456
Current liabilities	$ 383,233	$ 383,233	$ 375,521	$ 375,521
Long-term debt	496,200	496,200	548,096	548,096
Future income taxes	356,408	355,226	257,624	277,558
Non-controlling interest	868	868	–	–
Shareholders' equity	1,417,604	1,478,860	1,206,895	1,253,281
	$ 2,654,313	$ 2,714,387	$ 2,388,136	$ 2,454,456

Stock Compensation

Under Canadian GAAP, no compensation cost has been recognized for stock options in the financial statements. Under US GAAP, the Corporation applied Accounting Principles Board Opinion No. 25 in accounting for stock options and, accordingly, no compensation cost is recognized in earnings. The per share weighted average fair value of stock options granted during the year ended December 31, 2001 was $19.87 (year ended December 31, 2000 – $18.21; year ended December 31, 1999 – $8.66) on the date of grant using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 5.75%, expected life of five years and expected volatility of 49% (year ended December 31, 2000 – risk free rate of 6%, expected life of five years and expected volatility of 61%; year ended December 31, 1999 – risk free rate of 5%, expected life of five years and expected volatility of 46%).

Had the Corporation determined compensation cost based on the fair value at the date of grant for its stock options under SFAS 123, net earnings in accordance with US GAAP would have decreased by $12.2 million to $190.7 million (basic EPS - $3.60) for the year ended December 31, 2001, decreased by $16.8 million to $91.2 million (basic EPS - $1.87) for the year ended December 21, 2000 and decreased by $6.3 million to $27.9 million (basic EPS – $0.63) for the year ended December 31, 1999. These pro forma earnings reflect compensation cost amortized over the option's vesting period.

14 Segmented Information:

The Corporation operates in three industry segments. The Contract Drilling Group includes drilling rigs, service rigs and hydraulic well assist snubbing units, procurement and distribution of oilfield supplies, camp and catering services, and manufacture, sale and repair of drilling equipment. The Technology Services Group includes wireline, directional drilling, measurement-while-drilling/logging-while-drilling services, well testing, pumping services for cementing, fracturing and well stimulation, the design, manufacture and marketing of downhole completion tools and the design, manufacture and marketing of polycrystalline diamond compact drill bits. The Rental and Production Group includes oilfield equipment rental services, industrial process services and compression equipment packaging, rental, sales and service.

2001	Contract Drilling Group	Technology Services Group	Rental and Production Group	Corporate and Other	Total
Revenue	**$1,010,020**	**$ 669,439**	**$ 271,880**	**$ 2,224**	**$1,953,563**
Operating earnings	**298,100**	**65,309**	**51,678**	**(30,710)**	**384,377**
Research and engineering	**–**	**32,440**	**–**	**–**	**32,440**
Depreciation and amortization	**75,511**	**51,656**	**14,934**	**3,019**	**145,120**
Assets	**1,367,678**	**982,945**	**241,044**	**62,646**	**2,654,313**
Capital expenditures*	**122,575**	**203,547**	**27,352**	**18,218**	**371,692**
2000					
Revenue	$ 743,544	$ 372,425	$ 239,220	$ 264	$ 1,355,453
Operating earnings	212,633	30,620	43,289	(25,697)	260,845
Research and engineering	–	20,288	–	–	20,288
Depreciation and amortization	58,194	27,969	13,995	1,142	101,300
Assets	1,376,007	718,680	203,113	90,336	2,388,136
Capital expenditures*	97,498	78,468	21,828	3,210	201,004
1999					
Revenue	$ 429,848	$ 125,954	$ 178,938	$ –	$ 734,740
Operating earnings	97,864	6,796	19,705	(6,871)	117,494
Research and engineering	–	3,629	–	–	3,629
Depreciation and amortization	40,036	12,305	14,575	312	67,228
Assets	827,412	345,492	188,524	72,438	1,433,866
Capital expenditures*	27,670	9,138	15,800	3,509	56,117

* *excludes business acquisitions*

The Corporation's operations are carried on in the following geographic locations:

2001	Canada	International	Total
Revenue	$ 1,412,370	$ 541,193	$1,953,563
Assets	2,178,732	475,581	2,654,313
2000			
Revenue	$ 1,105,183	$ 250,270	$ 1,355,453
Assets	2,048,219	339,917	2,388,136
1999			
Revenue	$ 615,222	$ 119,518	$ 734,740
Assets	1,271,228	162,638	1,433,866

15 Financial Instruments:

(a) *Fair value:*

The carrying value of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The fair value of long-term debt, exclusive of the unsecured debentures, approximates its carrying value as it bears interest at floating rates. The $200 million Series 1 debentures have a fair value of approximately $201.5 million as at December 31, 2001 (December 31, 2000 – $199.5 million) and the $150 million Series 2 unsecured debentures have a fair value of approximately $153.2 million at December 31, 2001 (December 31, 2000 - $152.6 million). As at December 31, 2001 investments have a carrying value of $6.6 million (December 31, 2000 - $7.3 million) and a fair value of approximately $7.8 million (December 31, 2000 - $12.0 million).

(b) *Credit risk:*

Accounts receivable includes balances from a large number of customers. The Corporation assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accordingly, the Corporation views the credit risks on these amounts as normal for the industry. As at December 31, 2001 the Corporation's allowance for doubtful accounts was $13.0 million (December 31, 2000 - $8.2 million).

(c) *Interest rate risk:*

The Corporation manages its exposure to interest rate risks through a combination of fixed and floating rate borrowings. As at December 31, 2001, 40% of its total long-term debt was in floating rate borrowings.

(d) *Foreign currency risk:*

The Corporation is exposed to foreign currency fluctuations in relation to its international operations, however, management believes this exposure is not material to its overall operations.

16 Supplemental Cash Flow Information:

	2001	2000	1999
Cash interest paid	$ 45,967	$ 29,504	$ 16,663
Cash income taxes paid	11,066	34,771	120,238
Components of change in non-cash working capital balances:			
Accounts receivable	$ (41,608)	$ (120,686)	$ (48,414)
Inventory	(24,024)	(6,391)	(4,927)
Accounts payable and accrued liabilities	17,503	64,479	16,072
Income taxes payable	14,686	1,610	(24,950)
	$ (33,443)	$ (60,988)	$ (62,219)

The components of accounts payable and accrued liabilities are as follows:

	2001	2000
Accounts payable	$ 58,228	$ 68,903
Accrued liabilities:		
Payroll	58,117	50,522
Other	136,997	108,123
	$ 253,342	$ 227,548

17 Contingencies:

The Corporation, through the performance of its services and product sales obligations, is sometimes named as a defendant in litigation. The nature of these claims is usually related to personal injury, completed operations or product liability. The Corporation maintains a level of insurance coverage deemed appropriate by management and for matters for which insurance coverage can be maintained. The Corporation has no outstanding claims having a potentially material adverse effect on the Corporation as a whole.

SUPPLEMENTARY INFORMATION

THE TORONTO STOCK EXCHANGE – SHARE TRADING SUMMARY

Canadian	High ($)	Low ($)	Close ($)	Volume of Shares	Value ($)
2001					
March 31	72.00	50.00	56.60	17,872,755	1,086,989,966
June 30	68.00	46.36	47.35	15,507,944	911,351,354
September 30	49.50	30.65	33.40	25,231,371	998,766,128
December 31	42.75	31.58	41.06	22,194,662	828,520,975
	72.00	30.65	41.06	80,806,732	3,825,628,423
2000					
March 31	48.95	33.90	48.55	15,684,504	643,952,179
June 30	59.50	43.80	57.20	15,846,874	851,428,913
September 30	59.00	47.90	53.85	13,604,034	731,986,873
December 31	57.15	39.30	56.25	15,461,804	747,323,156
	59.50	33.90	56.25	60,597,216	2,974,691,121
1999					
March 31	21.50	13.25	19.50	13,718,204	234,035,097
June 30	30.75	18.45	28.00	14,673,427	384,072,934
September 30	40.60	27.05	34.00	14,029,216	487,923,911
December 31	39.45	28.25	37.00	8,875,591	294,174,872
	40.60	13.25	37.00	51,296,438	1,400,206,814

THE NEW YORK STOCK EXCHANGE – SHARE TRADING SUMMARY

US	High ($)	Low ($)	Close ($)	Volume of Shares	Value ($)
2001					
March 31	46.40	33.06	38.69	20,606,300	816,043,158
June 30	44.50	30.50	34.45	20,758,600	808,735,284
September 30	32.46	19.45	30.16	18,852,700	523,502,280
December 31	27.19	19.99	21.38	23,467,000	555,447,564
	46.40	19.45	21.38	83,684,600	2,703,728,286
2000					
March 31	33.75	23.31	33.38	14,504,500	416,080,112
June 30	40.38	29.38	38.63	14,323,200	512,362,421
September 30	39.56	32.38	35.63	12,586,000	455,927,521
December 31	37.94	25.56	37.53	15,878,300	491,100,502
	40.38	23.31	37.53	57,292,000	1,875,470,556
1999					
March 31	14.00	8.81	13.00	4,453,900	50,536,487
June 30	21.13	12.31	19.06	7,252,400	126,663,654
September 30	27.75	18.38	23.19	9,008,500	212,591,281
December 31	26.94	19.13	25.69	9,422,900	212,297,850
	27.75	8.81	25.69	30,137,700	602,089,272

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

($ millions except per share amounts)	Years ended December 31 2001	2000	1999	Years ended April 30 1999	1995	1990
Revenue	**1,953.6**	1,355.5	734.7	693.9	178.6	31.7
Expenses:						
Operating	**1,238.1**	870.2	488.0	450.1	122.4	24.7
General and administrative	**153.5**	102.9	58.4	51.1	12.1	3.9
Depreciation and amortization	**145.1**	101.3	67.2	61.1	9.8	1.1
Research and engineering	**32.5**	20.3	3.6	–	–	–
Operating earnings	**384.4**	260.8	117.5	131.6	34.3	2.0
Interest, net	**43.6**	28.6	16.5	18.9	1.5	1.2
Dividend income	**(1.1)**	–	(1.4)	(17.8)	(0.7)	–
Gain on disposal of investments and subsidiary	**(1.8)**	–	(24.9)	(17.0)	–	–
Reduction of carrying amount of investments	–	–	13.1	11.0	–	–
Reduction of carrying amount of property, plant and equipment	–	–	10.2	10.2	–	5.1
Forgiveness of long-term debt	–	–	–	–	–	(5.2)
Earnings before taxes, goodwill amortization and non-controlling interest	**343.7**	232.2	104.0	126.3	33.5	0.9
Income taxes	**123.0**	77.9	53.9	58.0	16.4	–
Earnings before goodwill amortization and non-controlling interest	**220.7**	154.3	50.1	68.3	17.1	0.9
Goodwill amortization	**31.8**	22.7	15.8	14.9	–	–
Earnings before non-controlling interest	**188.9**	131.6	34.3	53.4	17.1	0.9
Non-controlling interest	**0.9**	–	–	–	0.2	–
Net earnings	**188.0**	131.6	34.3	53.4	16.9	0.9
Retained earnings, beginning of period	**342.4**	280.9	246.6	206.9	20.7	5.7
Adjustment on adoption of liability method of accounting for income taxes	–	(70.1)	–	–	–	–
Adjustment on purchase and cancellation of share capital	–	–	–	–	(0.2)	–
Retained earnings, end of period	**530.4**	342.4	280.9	260.3	37.4	6.6
Earnings before goodwill amortization per share:						
Basic ($)	**4.15**	3.17	1.13	1.62	1.03	0.08
Diluted ($)	**4.06**	3.06	1.11	1.60	1.00	n/a(1)
Earnings per share:						
Basic ($)	**3.55**	2.70	0.77	1.27	1.03	0.08
Diluted ($)	**3.47**	2.61	0.76	1.25	1.00	n/a(1)

(1) not available

ADDITIONAL SELECTED FINANCIAL DATA

	Years ended December 31			Years ended April 30		
($ millions except per share amounts)	**2001**	2000	1999	1999	1995	1990
Returns:						
Return on sales[1]	**9.6%**	9.7%	4.7%	7.7%	9.5%	2.8%
Return on assets[2]	**7.4%**	7.5%	2.6%	9.3%	14.7%	3.2%
Return on equity[3]	**14.1%**	13.5%	4.2%	15.9%	29.1%	7.0%
Financial position:						
Working capital	**215.9**	157.7	162.9	91.2	8.4	3.8
Current ratio	**1.56**	1.42	1.85	1.54	1.21	1.53
Property, plant, equipment and intangibles	**1,492.6**	1,287.9	761.6	683.5	66.8	15.7
Total assets	**2,654.3**	2,388.1	1,436.3	1,247.7	119.1	27.4
Long-term debt	**496.2**	548.1	226.8	215.0	1.4	5.6
Shareholders' equity	**1,417.6**	1,206.9	908.8	768.3	67.0	12.7
Long-term debt to shareholders' equity	**0.35**	0.45	0.25	0.28	0.02	0.44
Other Financial Data:						
Net capital expenditures excluding business acquisitions	**340.7**	180.5	41.1	88.3	11.8	1.1
EBITDA [4]	**529.5**	362.1	184.9	192.7	44.1	3.1
EBITDA – % of revenue	**27.1%**	26.7%	25.2%	27.8%	24.7%	9.8%
Operating earnings	**384.4**	260.8	117.5	131.6	34.3	2.0
Operating earnings – % of revenue	**19.7%**	19.2%	16.0%	19.0%	19.2%	6.2%
Cash flow[5]	**465.7**	297.9	101.5	95.8	28.3	2.0
Cash flow per share ($)						
Basic	**8.79**	6.11	2.28	2.27	1.73	0.18
Diluted	**8.59**	5.91	2.24	2.25	1.68	n/a[8]
Book value per share ($)[6]	**26.77**	24.77	20.42	18.26	4.09	1.14
Price earnings ratio[7]	**11.6**	20.8	48.1	19.8	6.7	17.4
Weighted average common shares outstanding (000's)	**52,953**	48,722	44,500	42,086	16,398	11,218

(1) Return on sales was calculated by dividing net earning by total revenues

(2) Return on assets was calculated by dividing net earnings by quarter average total assets

(3) Return on equity was calculated by dividing net earnings by quarter average total shareholders' equity

(4) Earnings before net interest, taxes, depreciation, amortization, non-controlling interest, dividend income, gain on disposal of investments and subsidiary, reduction in carrying amounts of investments and property, plant and equipment and forgiveness of long-term debt. EBITDA is not a recognized measure under Canadian GAAP. Management believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principle business activities prior to consideration of how those activities are financed or how the results are taxed in various jurisdictions and prior to the impact of depreciation and amortization. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Precision's performance. Precision's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

(5) Funds provided from operations excluding forgiveness of debt for 1990

(6) Book value per share was calculated by dividing shareholders' equity by total weighted average number of common shares outstanding

(7) Year end closing price divided by basic earnings per share

(8) Not available

SHAREHOLDER INFORMATION

HEAD OFFICE

Precision Drilling Corporation
4200, 150-6th Avenue SW
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Telephone: (403) 716-4500
Facsimile: (403) 264-0251
Website: www.precisiondrilling.com

INTERNATIONAL CENTERS

United States
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363 N. Sam Houston Parkway East
Houston, Texas 77060, US
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Centro Ciudad Comercial Tamanaca
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Facsimile: 58-212-959-3595

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P.O. Box 2146 Bin Arrar Building
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Al Najda Street, Abu Dhabi,
United Arab Emirates
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Facsimile: 971-2-6747-373

Asia/Pacific
Jakarta Stock Exchange Building
Tower 2, 23rd Floor, Suite 2303A
JL. Jend. Suidirman Kav 52-53
Jakarta, 12910 Indonesia
Telephone: 62-21-515-3383
Facsimile: 62-21-515-3385

OTHER INTERNATIONAL OFFICES

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2nd Floor Trident House,
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Telephone: (246) 228-4293
Facsimile: (246) 426-5992

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Manzana 7, Lote 6,
Parque Industrial del Norte,
Cd. Reynosa, Tamaulipas,
Mexico C.P. 88730
Telephone: 52-8-929-5104
Facsimile: 52-8-929-5114

Venezuela
Avenida Intercomunal El Tigre-El Tigrito,
Al Lado de American Diesel,
El Tigre, Estado Anzoategui, Venezuela
Telephone: 58-2832-412701
Facsimile: 58-2832-412822

DIRECTORS

W.C. (Mickey) Dunn (3)
Edmonton, Alberta

Robert J. S. Gibson (1) (3)
Calgary, Alberta

Steven C. Grant (1) (2)
Houston, Texas

Murray K. Mullen (2)
Calgary, Alberta

Brian E. Roberts (3)(4)
Calgary, Alberta

Hank B. Swartout
Calgary, Alberta

H. Garth Wiggins (1)
Calgary, Alberta

(1) Audit Committee Member
(2) Compensation Committee Member
(3) Corporate Governance Committee Member
(4) Not standing for re-election due to term limits

OFFICERS

Hank B. Swartout
Chairman of the Board,
President and Chief Executive Officer

Dale E. Tremblay
Senior Vice President Finance
and Chief Financial Officer

Larry J. Comeau
Senior Vice President
Technology Services Group

M.J. (Mick) McNulty
Vice President Business Development
and Treasurer

R.T. (Bob) German
Vice President Finance

Jan M. Campbell
Corporate Secretary

BANKER

Royal Bank of Canada
Calgary, Alberta

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

Printed in Canada

STOCK EXCHANGE LISTINGS

Common shares of Precision Drilling Corporation are listed on The Toronto Stock Exchange under the trading symbol PD and on the New York Stock Exchange under the trading symbol PDS.

SHARE SPLIT

In 1997, Precision's Board of Directors authorized a two for one split of the Corporation's common shares. The record date for the split was September 30, 1997.

TRADING PROFILE

Toronto
January 1, 2001 to December 31, 2001
High: $72.00
Low: $30.65
Volume traded – 80,806,732

New York
January 1, 2001 to December 31, 2001
High: US$46.40
Low: US$19.45
Volume traded – 83,684,600

INVESTOR INFORMATION

As a Precision Drilling Corporation shareholder, you are invited to take advantage of shareholder services or to request more information about the Corporation.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

TRANSFER POINT

Computershare Trust Company, Inc.
New York, New York

ACCOUNT QUESTIONS

Our Transfer Agent can help you with a variety of shareholder related services, including:

- Change of address
- Lost share certificates
- Transfer of stock to another person
- Estate Settlement

You can call our Transfer Agent toll free at: 1-800-558-0046.

You can write them at:
Computershare Trust Company of Canada
600, 530-8th Ave. SW
Calgary, Alberta T2P 3S8

Or you can email them at:
caregistryinfo@computershare.com

Shareholders of record who receive more than one copy of this annual report can contact our Transfer Agent and arrange to have their accounts consolidated. Shareholders who own Precision shares through a brokerage firm can contact their broker to request consolidation of their accounts.

QUARTERLY UPDATES

If you would like to receive quarterly reports but are not a registered shareholder, please write or call us with your name and address. To receive our news releases by fax, please forward your fax number to us. To receive our news releases by e-mail, please visit our website at www.precisiondrilling.com and refer to the Investor Relations section.

ONLINE INFORMATION

Anyone with access to the Internet can view this annual report electronically at www.precisiondrilling.com

PUBLISHED INFORMATION

If you wish to receive copies of the 2001 Renewal Annual Information Form, or additional copies of this annual report, please contact:

Investor Relations
Precision Drilling Corporation
4200, 150-6th Avenue SW
Calgary, Alberta T2P 3Y7
Telephone: 403-716-4500
Fax: 403-264-0251

ESTIMATED INTERIM RELEASE DATES

2002 First Quarter
May 2, 2002

2002 Second Quarter
August 1, 2002

2002 Third Quarter
October 31, 2002

ANNUAL MEETING

The Annual General and Special Meeting of the Shareholders of Precision Drilling Corporation will be held in the McMurray Room of the Calgary Petroleum Club, 319-5th Avenue SW, Calgary, Alberta at 3:30 p.m. (Calgary time) on May 15, 2002. Shareholders are encouraged to attend and those unable to do so are requested to complete the Form of Proxy at their earliest convenience.

Precision Drilling

PRECISION DRILLING CORPORATION

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